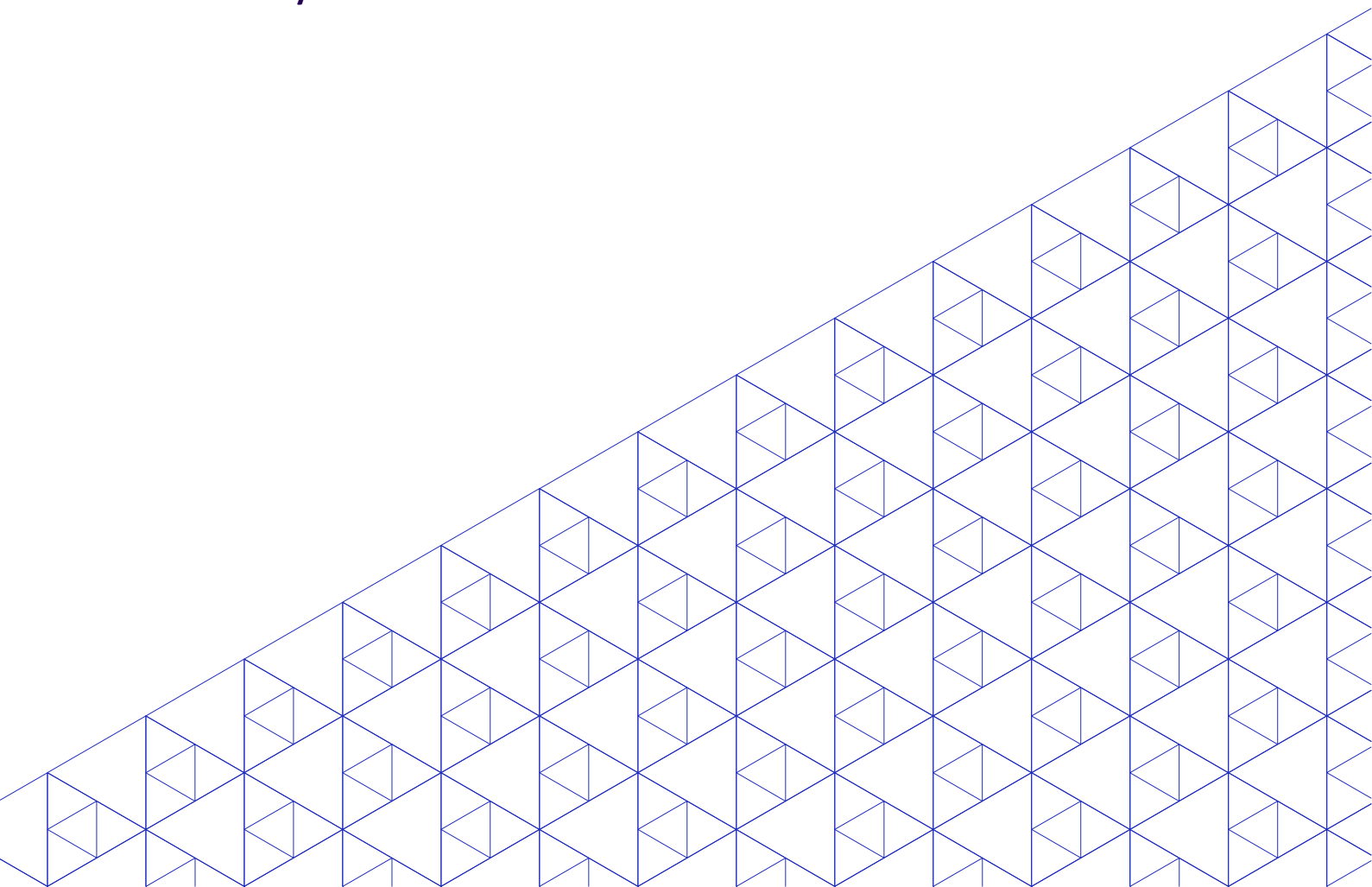


# ► **Towards Full and Productive Employment in Uzbekistan: Achievements and Challenges**

**ILO Decent Work Technical Support Team and Country Office  
for Eastern Europe and Central Asia**

**Employment Country Reports Series  
February 2021**





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The Uzbekistan Ministry of Employment and Labour Relations (MELR) and the ILO Decent Work Team and Country Office for Eastern Europe and Central Asia agreed in early 2019 on a roadmap for development cooperation, for strengthening and expanding the cooperation agenda to include national employment policies, employment services and active labour market programmes. The preparatory work for the new national employment strategy was launched in Tashkent by Mr. Erkin Mukhitdinov, First Deputy Minister of Employment and Labour Relations, in September 2019.

The present document “Towards Full and Productive Employment in Uzbekistan: Achievements and Challenges” was prepared by international experts Mr. Duncan Campbell and Mr. Per Ronnas. The first draft was discussed and submitted to tripartite consultation during the year 2020. This document is the final of a series of country reports aimed at providing analytical support and building knowledge for supporting evidence-based national employment policies in Uzbekistan.

The project “Partnerships for Youth Employment in the Commonwealth of Independent States (CIS)”, a public-private cooperation initiative between the ILO and the Russian company LUKOIL, provided technical assistance and financial support and helped implement a fresh cooperation program on employment policies. The project promotes new labour market research, employment policy reviews and institutional assessments, and facilitates peer-to-peer learning and knowledge sharing activities for assisting CIS member countries in mainstreaming youth and gender-sensitive employment policies into national development strategies.





## Foreword

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The Uzbekistan Ministry of Employment and Labour Relations (MELR) and the ILO Decent Work Team and Country Office for Eastern Europe and Central Asia, led by the Office's Director Olga Koulaeva, and Mikhail Pouchkin, Deputy Director at the ILO Moscow Office, agreed on a roadmap for development cooperation in early 2019, including an expanded agenda covering employment policies, employment services and active labour market programs. The new agenda was the follow up of the meeting between Guy Ryder, Director-General of the International Labour Organization (ILO), on his first ever visit to Uzbekistan in December 2018, and Shavkat Mirziyoyev, President of the Republic of Uzbekistan.

The employment agenda builds on Uzbekistan's fast-moving reform programs on economic and social policies and the country's progress on complying with ILO standards and promoting decent work, especially on fighting child labour and forced labour. Furthermore, the ILO appreciates the importance of the presidential decrees signed by the end of 2018, reinforcing the role of the Ministry in employment policies and services promoting a more inclusive labour market.

The preparatory work for a new national employment strategy was launched in Tashkent by the First Deputy Minister of Employment and Labour Relations, Erkin Mukhitdinov, in September 2019, when the ILO working paper "Towards employment friendly macroeconomic policies in Uzbekistan", by the international expert Yan Islam, was submitted for a tripartite discussion.

The present document "Towards Full and Productive Employment in Uzbekistan: Achievements and Challenges", prepared by international experts Duncan Campbell and Per Ronnas, is the final in a series of four country reports providing analytical support and building new knowledge for evidence-based national employment policies in Uzbekistan. The current report complements previous papers: the "Background report for preparation of the National Employment Strategy of the Republic of Uzbekistan", February 2020, prepared by national consultants Ildus Kamilov and Janna Fattakhova, and two institutional assessments for the State Employment Services and the Uzbekistan Public Work Program.

The project "Partnerships for Youth Employment in the Commonwealth of Independent States (CIS)", a public-private cooperation initiative between the ILO and the Russian LUKOIL company, provided technical assistance and financial support. Ramiro Pizarro, Project Manager, coordinated the different reports, prepared the technical meetings and conducted tripartite consultations. The project promotes new labour market research, country case studies, policy reviews and institutional assessments, as a contribution to the CIS sub-regional network on youth employment.

By building a cooperation platform, the project assists CIS member countries in mainstreaming youth and gender-sensitive employment policies into national development strategies. The CIS cooperation network provides an important mechanism to leverage expertise, promote peer-to-peer learning, transfer knowledge and experience, and facilitate the policy dialogue around lessons learnt and good practices that can later be replicated and/or adapted to the needs of the member countries.



## Six Main Messages

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### 1. The Need for Creation of Productive Jobs

- Approximately 300 thousand new jobs will need to be created yearly between 2020 and 2030, which is 50% more than during 2010-2018, as a consequence of increasing the retirement age and in order to bring down unemployment. At the same time, the productivity and incomes of the poor must increase to bring down poverty.
- Labour mobility between economic sectors as well as geographic mobility has been very low. Structural change that is shifting labour from low-productivity and obsolete sectors to sectors with good potential for both employment and productivity growth, needs to be more forcefully promoted.

### 2. Easing the transition from education to employment for youth

- More than half of all youth aged 20-29 have completed education but have not yet found a job. Far too many, in particular young women, fall by the wayside in the transition from education to employment.
- Inadequate knowledge and skills, not least computer skills, a lack of local employment opportunities compounded by low geographic mobility, inefficient labour market intermediation and cultural factors that put young women at a distinct disadvantage combine to make the transition from education to employment very difficult, in particular for young women and for youth in rural areas.
- Easing the transition from education to employment for youth is crucial for achieving the country's ambitious economic and employment goals. Such efforts will invariably need to have a strong focus on those facing the greatest difficulties, e.g., young women, rural youth and youth from economically disadvantaged households.

### 3. Uzbekistan is currently characterised by a dual economy and labour market.

- The corporate sector: Highly capital-intensive, yet largely inefficient. Employment is largely formal, enjoying the benefits and security prescribed by law. However, the sector creates no new jobs.
- The non-corporate sector: Dynamic and main source of job creation. Yet, much of it is still informal. Employment in practice often falls outside the coverage of labour laws and protection and working conditions are likely to vary greatly.
- The shift from the corporate to the non-corporate sectors requires efforts:
  - to support the growing non-corporate sector through the creation of an enabling and supporting environment) and,
  - to promote its formalisation and to ensure that the jobs created in the non-corporate sector are productive and meets the standards of decent work
- Informality needs to be unpacked as different forms of informality require different responses.
- The main challenge ahead is to create a unified, integrated economy and labour market out of these two parts. At the same time the profound economic transformation must be managed in a way that minimise disruption and maximise its benefits.

### 4. There are geographic imbalances between the creation of productive jobs on the one hand and the need for productive jobs on the other hand.

- Geographic rural-urban migration and geographical mobility more generally, which has been very low in Uzbekistan, needs to be facilitated.
- At the same time strong efforts to promote rural and local economic development and employment creation are needed to avoid that rural areas and small towns become victims of the economic transformation and stagnate. Indeed, the main battle to preserve and create productive jobs will probably take place outside the big cities.

**5. There appears to be a current lack of data on the labour market and on program performance which impedes both the monitoring and evaluation of how both the labour market and programs are functioning**

- A new policy that would relieve employers of non-wage labour costs in return for hiring more secondary and tertiary graduates seems a promising idea, but is it working? MELR generates employment targets at regional and district levels. Are these targets being met? Have they resulted to adjustments in existing programs? There are no enterprise surveys. Are there any data on future skill needs in the labour market?
- Without such data or the analysis of existing data it is difficult to evaluate existing programs or to prepare the education and training programs for meeting future needs of the labour market.

**6. Existing labour market institutions, including those that serve the purpose of labour market intermediation are many, but they appear oriented on a growth model, i.e., heavy involvement of the state and a large public sector, that is gradually transforming itself toward becoming a private, market economy.**

- The current Public Employment Service (PES) remains not fully equipped to deal with job seekers from the informal economy, would-be entrepreneurs, etc.
- The PES needs to focus more not merely on registration of job seekers, but on individual counselling and coaching services reflecting the diversity of its clientele.

**7. Relative to its neighbours, Uzbekistan's education system is well funded, and the country's enrolment and literacy rates are high, however, the county needs to improve the quality and relevance of the education and training system.**

- Relative to its neighbours, the country's education system is quite truncated, with low pre-school and even lower rates of tertiary enrolment.
- There are indications, including those in the 2nd Education Sector Strategy that the quality of teaching needs improvement, that the relevance of the curriculum to the needs of the labour market is tenuous, that the output of existing vocational training programs is not viewed as high by employers.
- There are shortcomings in what is being taught, but also in how it is being taught. The pedagogical method needs to shift from one based on fact accumulation through memorization to greater problem-solving and competency-based learning.
- Educational reform is, of course, high on the agenda in Uzbekistan. Results from the process will, however, not be immediate.
- The education system also holds its own needs for data collection and analysis through national assessment or a standardized means of measuring national performance, and a national qualifications system that can certify skills, acquired whether through formal education, on-the-job training, or through other means.



## 1. The Need for Creation of Productive Jobs

### 1.1 The demographic imperative

Uzbekistan is in a phase of rapid demographic change. The so-called demographic window of opportunity<sup>1</sup> peaked in Uzbekistan around 2010 – 2015 and the age-dependency rate has now begun to deteriorate from a very low and advantageous level. The country still has a large young population - almost 30 per cent are below the age of 15 - but it is expected to begin to decline not only as a share of the total population, but also in absolute terms in the coming decade (Table 1.1). At the same time, the share of the older age groups will begin to grow at a rapidly increasing pace as the large numbers currently in their fifties exit from the working age population.

**Table 1.1 The demographic imperative to create employment**

	0-14	15-54/59, alt 15-59/64	55/60 +, alt 60/65 +	Total
<b>Thousands</b>				
2010	8,365.0	17,571.5	2,064.9	28,001.4
2015	8,752.2	19,573.3	2,697.0	31,022.5
2020	9,870.3	20,481.9	3,553.0	33,905.2
2030	9,479.0	22,812.0	5,127.0	37,418.0
2030 alt	9,479.0	24,354.0	3,585.0	37,418.0
<b>Percentages</b>				
2010	29.9	62.8	7.4	100.0
2015	28.2	63.1	8.7	100.0
2020	29.1	60.4	10.5	100.0
2030	25.3	61.0	13.7	100.0
2030 alt	25.3	65.1	9.6	100.0
<b>Yearly growth, %</b>				
2010-20	1.67	1.54	5.58	1.93
2020-30	-0.40	1.08	3.74	0.99
2020-30 alt	-0.40	1.75	0.09	0.99

2030 alt: Assuming an increase in the retirement age to 65 for men and 60 for women by 2030.

Note: It would appear that the UN forecasts underestimated the growth of the below 15 age group between 2010-2020. Forecasts for 2030 may therefore be underestimates.

Sources: 2010 and 2020 [www.stat.uz](http://www.stat.uz); 2030 from UN World Population Prospects <https://population.un.org/wpp/>

The retirement age has remained unchanged since Soviet times at 60 for men and 55 for women. However, it is scheduled to be increased to 65 for men and 60 women in the coming years. Based on the current definition of the working age population as those aged 15-54 for women and 59 for men, the rate of growth of the working age population would be expected to slow from 1.54 per cent in 2010-20 to 1.08 per cent 2020-30, while the post-working age population would grow by 3.7 per cent per year increasing its share of the total population from 10.5 in 2020 to 13.7 in 2030 (Table 1.1).

Increasing the pension age will imply a large additional growth of the working age population by 1.5 million between 2020 and 2030. Put differently, whereas under unchanged pension age the working age population would grow by 1.1 per cent 2020-30, down from 1.5 per cent 2010-2020, the increase in the pension age to 60/65 will result in an annual growth of the working age population by almost 1.8 per cent per year between 2020 and 2030. More than half of the additional growth of the working age population resulting from the increase in the pension age will be women, implying a particularly strong pressure to create jobs for females in the decade to come.

<sup>1</sup> A period when the share of elderly in the population is still low at the same time as the share of children is falling due to falling fertility rate. As the consequence the dependency rate, i.e., the number children and elderly each working age person has to support, is low and falling.



Table 1.2 Age dependency ratio

	2010	2015	2020	2030 (i)	2030 (ii)
Age dependency ratio	0.594	0.585	0.655	0.640	0.536

Source: Table 1.1

The increase in the retirement age will put the economy under pressure to generate additional jobs. The labour force will get older. There will be fewer new young entrants than during previous years, while those already in the labour force will leave at a later age. This may also have implication on labour mobility at a time when the economy is rapidly transforming. A big advantage of the increase in retirement age will be a significant improvement in the dependency ratio. The age-based dependency ratio will improve from 0.66 in 2020 to 0.54 in 2030 (Table 1.2). The actual dependency ratio, that is the number of non-working persons supported by each employed person, will no doubt also improve significantly, although probably not as much as the age-based dependency ratio as some already work beyond retirement age and as the labour force participation rate in any case tends to fall among people in their late 50s and 60s.

## 1.2 The deficit of productive jobs and the need for creation of productive jobs until 2030

### A few definitions.

Working age population:	The entire population, including those temporarily abroad for less than a year, between the age of 15 and 64 or 15 and the official retirement age. That is in Uzbekistan currently men aged 15-59 and women aged 15-54. However, the upper limit will increase as the pension age increases.
Employed:	Those who were engaged in economic activity in the domestic economy for at least one hour during the previous week.
Unemployed:	Those who are not employed, but are available for work and actively looking for a job.
The labour force:	The sum of the employed and the unemployed.
Labour resources:	All able-bodied men and women of working age plus those above or below the working age who are working. A definition used in Uzbekistan and some other CIS countries.
Population:	In a country with large temporary labour migration abroad, how the population is defined matters. A distinction is made between: <ul style="list-style-type: none"> <li>o <i>de facto</i> population, which include all those who were present in the country at the time of the population census or survey, but nobody else, and</li> <li>o <i>de jure</i> population, which includes those who are residents in the country, even if they are temporarily (for less than one year) abroad.</li> </ul>

## Labour market structure

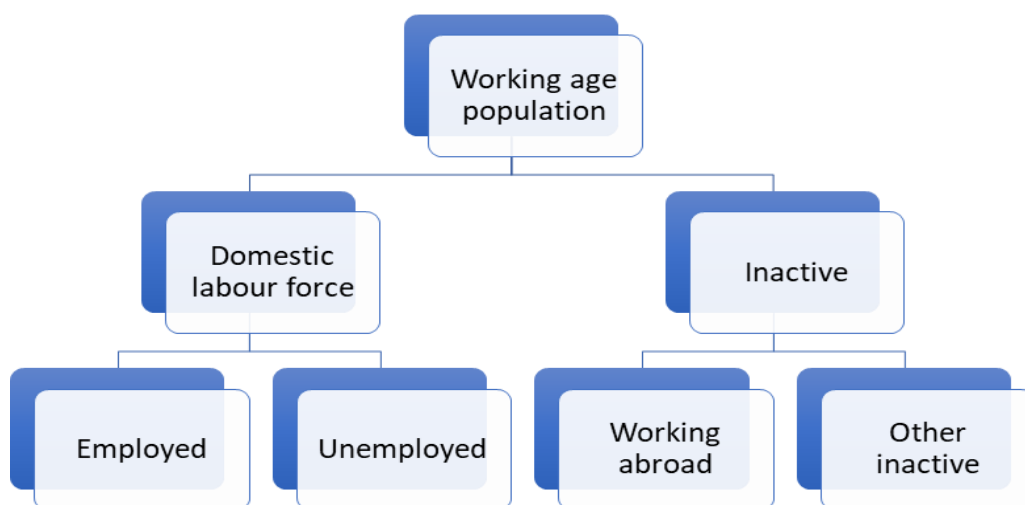


Table 1.3 provides a summary of the working age population and labour force based on the national definition of “labour resources”. Figures on the working age population according to the international, age-based definition are included for reference.

**Table 1.3 Working age population, labour resources and participation in the labour force. Thousands.**

	2010			2019		
	Total	Urban	Rural	Total	Urban	Rural
Total population	28 562.4	14 661.6	13 900.8	33 580.4	16 669.7	16 286.4
Labour resources	16 726.0	9 134.1	7 591.9	19 142.3	10 572.7	8 896.3
• working age	16 533.9			18 712.1		
• non-working age, but working	192.1			117.5		
Labour force	12 286.6	6 840.8	5 445.8	14 876.4	7 838.2	6 038.2
Employed	11 628.4			13 541.1		
Unemployed	658.2			1 335.3		
<i>Memorandum item:</i>						
Working age pop 15 – 64	18 477.3			22 131.1		

Note: All figures refer to annual averages, except total population which refers to the beginning of year.

The labour resources include the working age population, currently men aged 15-59 and women aged 15-54, except those who are incapacitated, plus those above the working age who are employed.

Source: State committee of the Republic of Uzbekistan on Statistics [www.stat.uz](http://www.stat.uz).

The labour force increased by 2,590 thousand between 2010 and 2019, while the number of jobs in the domestic economy only increased by 1,913 thousand over the same period, as a result, the number of unemployed doubled (Table 1.3). Put differently, job creation equalled only 74 per cent of the labour force increase, implying that the remaining 26 per cent had to join the ranks of the unemployed. However, as we will discuss later, a main reason for the increase in unemployment would seem to be increased incentives to register as unemployed after 2017.

**Table 1.4 Labour force characteristics in 201 and 2019. Percentages.**

	2010	2019
LFPR national (active as % of labour resources)	73.5	77.7
• urban	74.9	74.1
• rural	71.7	79.1
Employment rate (% of labour resources)	69.5	70.7
Unemployment rate (% of active)	5.5	9.0
Unemployment rate (% of labour resources)	3.6	67.0
<i>Memorandum item:</i>		
LFPR, (based on aged 15-64)	64.7	61.2

Source: Table 1.3

Labour force participation has increased over the past decade from 73.5 to 77.7 per cent of the total labour resources (Table 1.4). The increase in labour force participation was particularly sharp in rural areas where it increased from 71.7 to 79.1 per cent of the total rural labour resources. However, the increase in labour force participation was not matched by a similar increase in the employment rate, which increased by a mere percentage unit. As a consequence, the unemployment rate increased from 5.5 to 9.0 per cent. A disaggregation of employment and unemployment by sex, main age groups and rural and urban areas would be needed to interpret and understand the aggregate figures. Unfortunately, the published statistics (in English) do not provide such breakdowns. It would also be necessary to explore the causes behind the large increase in labour force participation in rural areas, in order to ascertain to what extent it reflects real changes or is a statistical artefact. Total employment increased by more than 1.9 million between 2010 and 2019, representing an annual growth of 1.7 per cent per year.

The fall in LFPR among the population aged 15-64 was due to a large increase in the share of population aged 54/59 – 64 (most of whom are retired) between 2010 and 2019.

Table 1.5 provides an estimate of the development of the working age population and the need for creation of additional employment between 2019 and 2030 and casts these estimates against the performance of the labour market between 2010 and 2019. The forecasts are based on two scenarios: (A) that the retirement age remains unchanged, and (B) that the retirement age is increased to 60 for women and to 65 for men.

**Table 1.5 Labour market development 2010-2019 and projected need for job creation until 2030. Thousands.**

	2010	2019	2030A	2030B
Total population, 1000	28,562.4	33,580.4	37,418.0	37,418.0
Working age population, 1000	18,038.4	20,289.8	22,812.0	24,354.0
Labour force, 1000	12,286.6	14,876.4	16,725.7	17,856.3
Employed, 1000	11,628.4	13,541.1	16,391.2	17,499.1
Unemployed, 1000	658.2	1,335.3	334.5	357.1
Inactive, 1000	16,275.8	18,704.0	16,854.7	19,561.7
Labour force participation rate, %	68.1	73.3	73.3	73.3
Employment rate, %	64.5	66.7	71.9	71.9
Unemployment rate, %	5.4	9.0	2.0	2.0

2030A: Based on current pension age of 55 for women and 60 for men

2030B: Based on pension age of 60 for women and 65 for men

Note: Working age population defined as men aged 15-59 and women aged 15-54 for 2010 and 2019. The figures assume constant labour force participation rates in 2010 and 2018.

Source: Figures for 2010 and 2019 from [www.stat.uz](http://www.stat.uz). Population estimates for 2030 from 2019 Revision of World Population Prospects (<https://population.un.org/wpp/>) See also Table 1.3 and 1.4

**Table 1.6 Labour market development 2010-2019 and projected need for job creation until 2030. Annual change**

	Annual change					
	Thousands			Per cent (CARG)		
	2010-2019	2019-2030A	2019-2030B	2010-2019	2019-2030A	2019-2030B
Total population	557.6	348.9	348.9	1.81	0.99	0.99
Working age population	250.2	229.3	369.5	1.32	1.07	1.67
Labour force	287.8	168.1	250.5	2.15	1.07	1.56
Employed	212.5	259.1	359.8	1.71	1.75	2.36
Unemployed	75.2	-91.0	-78.0	8.18	-11.8	-11.3

2030A: Based on current pension age of 55 for women and 60 for men

2030B: Based on pension age of 60 for women and 65 for men

Note: CARG – Cumulated annual rate of growth

Source: Table 1.5

If the SDG target of full and productive employment and decent work for all is to be reached by 2030, then unemployment has to be reduced from 9.0 per cent in 2019 to no more than a frictional 2 per cent in 2030 (Table 1.6). Hence despite a slow-down in the growth of the working age population and labour force in 2019-30, assuming unchanged retirement age, the number of jobs created per year would need to increase from 213 to 259 thousand per year even if the retirement age remains unchanged.

However, the retirement age is planned to be increased. If we assume that it will be increased to 60 years for women and 65 for men by 2030, then the labour force can be expected to increase by 250 thousand per year and employment creation would need to increase to 360 thousand per year to absorb both the much faster labour force growth and to reduce unemployment to no more than 2 per cent. In reality labour force growth is likely to be somewhere in-between these two scenarios as the increase in the retirement age will most likely result in a slightly lower labour force participation rate.

It should also be noted that the rapid labour force growth under the 2030B scenario is not due to any increase in the number of people entering the labour force, but because very few would leave the labour force over the period.

However, all jobs are not good jobs, and all employment does not meet basic criteria for offering decent working conditions and earnings. As people have to work to make ends meet, total employment is to a large extent a function of the need to work. If no productive jobs are available, poor people will resort to distress self-employment, earning their living as best they can and often compensating very low productivity by working excessively long hours. The number of people employed is not always a good indicator of the performance of the economy and the labour market. Hence, targets for employment creation need to have a qualitative as well as a quantitative dimension.

The concept of productive employment<sup>2</sup> is useful as it introduces a productivity and income dimension and as it is directly related to poverty elimination and, thus, to SDG Goal 1.

With the introduction of this concept the labour force can be broken down as shown in Figure 1.1

- Productive employment: Employment yielding sufficient returns to labour to permit the worker and his/her dependents a level of consumption above the poverty line;
- The working poor: Those who are working, but whose income is insufficient to bring themselves and their dependents out of poverty;
- The deficit of productive employment: those who are in the labour force, but who are not productively employed. That is the sum of the working poor and the unemployed.

It should be noted that productive employment links directly to SDG 1 “Elimination of poverty” and SDG 8 “Full and productive employment and decent work for all”.

<sup>2</sup> That is employment yielding an income that is high enough to allow the worker and his/her dependents to escape income poverty.

Figure 1.1 A breakdown of the labour force

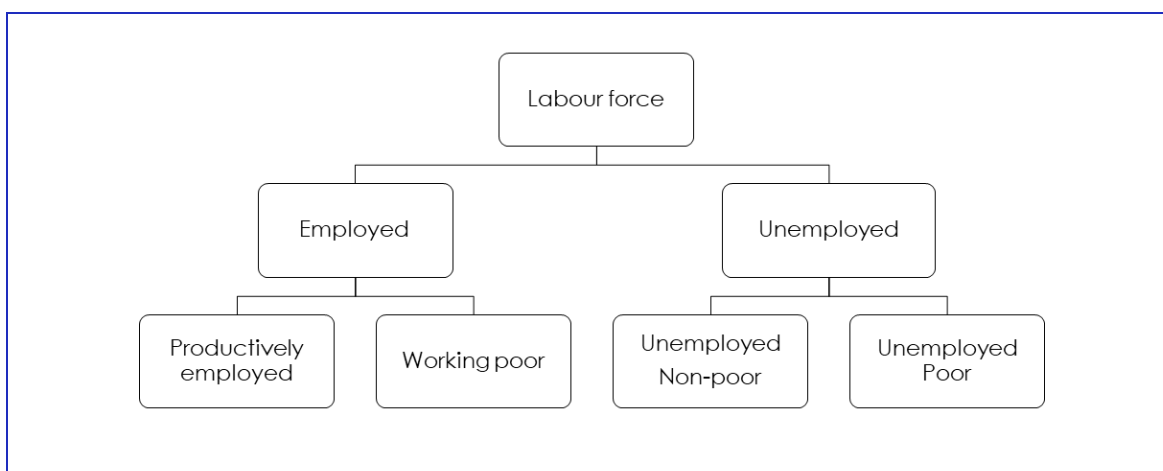


Table 1.7 Deficits of productive jobs and the need for creation of productive jobs to meet SDG 8 and SDG 1. Thousands.

	2010	2019	2030A	2030B
Total population	28,562.4	33,580.4	37,418.0	37,418.0
Working age population	18,038.4	20,289.8	22,812.0	24,354.0
Labour force	12,286.6	14,876.4	16,725.7	17,632.3
Employed	11,628.4	13,541.1	16,391.2	17,145.2
• Productively employed	9,570.2	11,997.4	16,391.2	17,145.2
• Working poor	2,058.2	1,543.7	0.0	0.0
Unemployed	658.2	1,335.3	334.5	352.4
Deficit of productive jobs	2,716.4	2,879.0	334.5	352.4
<b>Percentages</b>				
Labour force participation rate,	68.1	73.3	73.3	77.3
Employment rate	64.5	66.7	71.9	71.9
Unemployment rate	5.4	9.0	2.0	2.0
Working poverty rate, estimate	17.7	11.4	0.0	0.0

Note: Working age population defined as men aged 15-59 and women aged 15-54 for 2010 and 2019. The figures assume constant labour force participation rates in 2010 and 2018.

The % working poor is assumed to be equal to the headcount poverty rate according to the national poverty line and according to official national statistics.

The figures in table 1.7 are calculated as follows

1. Demographic projections give us the working age population in 2030.
2. We estimate the labour force participation rate. In this case it is assumed to remain the same as in 2020. However, this estimate can be refined and also broken down by sex. Increasing the labour force participation rate can also be a policy target.
3. The labour force is calculated as the working age population x the labour force participation rate
4. Unemployed is defined as a target. E.g., the SDG 8 “Full and productive unemployment for all” implying no unemployment. In reality, some frictional unemployment will always remain. Here it is set to 2 per cent
5. Targeted employment is calculated as labour force – unemployed.
6. Working poor is calculated as employed \* the working poverty rate, which here is assumed to be the same as the headcount poverty rate. In reality, it is likely to be slightly lower. Here estimates of the poverty rate are used. These should be replaced by official figures as soon as such becomes available.
7. Productively employed is calculated as total employment – working poor.
8. Deficit of productive jobs is calculated as Unemployed + working poor = labour force – productively employed.

Between 2010 and 2019 the number of productive jobs increased by around 270 thousand per year (Table 1.8). Some 212 thousand new jobs were created each year, while the number of working poor fell by around 57 thousand per year as the working poor benefitted from increased incomes in their current jobs or moved to other more productive jobs. On the other hand, unemployment increased by 75 thousand per year and, as a consequence, the deficit of productive jobs actually increased somewhat. The fall in the share of working poor in total employment reflected a fall in the headcount

poverty rate from 17,7 to 11.4 per cent. While significant progress towards the SDGs were made in terms of reducing poverty and the number of working poor, the overall progress towards SDG 8 “Full productive employment for all” was reduced by the increase in unemployment.

**Table 1.8 Deficits of productive jobs and the need for creation of productive jobs to meet SDG 8 and SDG 1. Annual change.**

	Annual change					
	Thousands			Per cent (CARG)		
	2010-2019	2019-2030A	2019-2030B	2010-2019	2019-2030A	2019-2030B
Total population	557.6	348.9	348.9	1.81	0.99	0.99
Working age population	250.2	229.3	369.5	1.32	1.07	1.67
Labour force	287.8	168.1	270.5	2.15	1.07	1.67
Employed	212.5	259.1	359.8	1.71	1.75	2.36
Productively employed	269.7	399.4	500.2	2.54	2.88	3.49
Working poor	-57.2	-140.3	-140.3	-3.15		
Unemployed	75.2	-91.0	-89.4	8.18	-11.82	-11.41
Deficit of productive jobs	18.1	-231.3	-229.7	0.65	-17.77	-17.38

Notes and sources: See Table 1.7

In coming years, the rate of productive job creation will need to increase significantly from 270 to 400 thousand per year, even if the retirement age were to remain unchanged (Table 1.8). The annual reduction of working poor would need to increase from 57 thousand per year in 2010-2019 to 140 thousand. This reduction can either take place by increasing the productivity and incomes of the working poor in their present jobs (no doubt primarily agriculture) or by shifting them to new and more productive jobs in other sectors. At the same time unemployment would need to be reduced by about 91 thousand per year

However, as discussed earlier, the planned increase in the retirement age will significantly increase the need for creation of new jobs. Assuming that the retirement age is increased to 60 for women and 65 for men by 2030, net job creation would need to increase from 213 thousand per year 2010-2019 to 360 thousand per year between 2019 and 2030. While the annual growth in productive employment would need to increase from 270 thousand per year to 500 thousand per year. However, on the positive side it should be noted that an increase in the retirement age would significantly reduce the dependency ratio, i.e., the number of mouths each breadwinner has to feed, which will make it easier to reduce working poverty.

A main conclusion from the above is that in the coming decade the Uzbek economy will need to perform much better both with regards to creating new productive jobs and with regard to increasing productivity and incomes for the working poor.

This will require (i) a high rate of economic growth, (ii) that economic growth efficiently translates into creation of productive jobs, and (iii) special efforts to increase productivity and incomes in the sectors and regions where the working poor are concentrated.

The above projections can be adjusted to take into account other targets as well, such as:

- Increase in labour force participation (e.g. through employment for “discouraged” labour resources.
- Formal (non-farm) jobs, in absolute numbers or as % of total
- “Stable” jobs, in absolute numbers or as a % of total
- Reduction of under-employment
- Targets based on other Decent Work Indicators

Targets can also be set for specific groups or regions, such as

- Gender-specific targets,
- NEET (Youth not in education or employment), youth unemployment
- Region specific targets

However, when introducing additional targets great care must be taken to ensure that all targets are mutually compatible.

## 1.3 The labour Market in the Pandemic: An overview

As elsewhere in the world, Uzbekistan has not escaped the consequences of the Covid-19 pandemic. A full discussion of the latter, and the Government's response to the pandemic, are beyond the scope of this paper. Yet the pandemic's disruptive effect on the labour market is worthy of brief mention, as the pattern of disruption, again, similar to other countries in the world, has not been homogeneously distributed economy-wide. Rather, it has been concentrated on the service sector, in occupations requiring physical proximity that cannot be substituted for remote work, and in sectors involving both proximity and travel.

As observed in other countries, the pandemic has increased inequality in Uzbekistan to the extent that affected jobs are concentrated at the lower end of the education and skills spectrum, as well as in jobs in which women are disproportionately represented:

*"Sectors with particularly large declines relative to the same period in 2019 included tourism, recreation and entertainment, bars and restaurants, and education," (Seitz et al., 2020, 10).<sup>3</sup>*

In Uzbekistan, the construction industry at least at the outset, as well as the trade, and transportation sectors have been affected in particular, as well as industry.

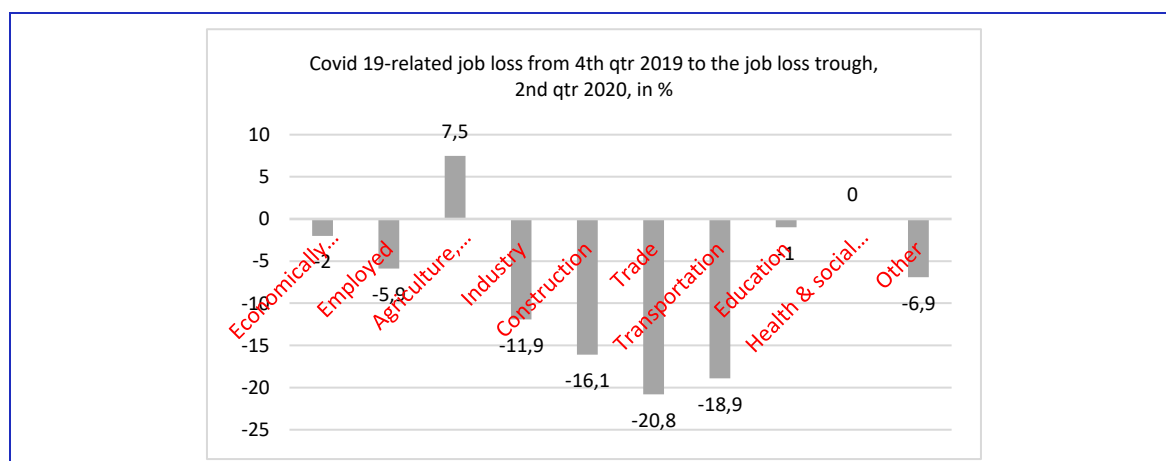
### Decline and partial recovery in the course of the year

The negative employment impact of the pandemic reached its nadir in the second quarter of 2020, which saw a 2 per cent decline in the economically active population and a 5.7 per cent decline in total employment relative to the 4th quarter of 2019. April saw the greatest decline in employment, a direct consequence of the lockdowns that had been instituted by the Government. The easing up of lockdowns in May and June were met by a recovery in employment.

By year end 2020, the labour market had continued to regain ground. The economically active population had returned to its end-2019 level, which nonetheless reflects a decline in what had been the secular increase in the economically active population. The major reason for this was the 2 per cent decline in the employed by year end 2020, reflecting a regain in employment in the final two quarters of the year, and an improvement over the midyear's 5.7 per cent loss.

In sum, the trough of employment decline in the 2nd quarter 2020 recorded a loss of 804,500 jobs since the 4th quarter 2019. By the end of 2020, the labour market had recovered, but employment loss for the year was 301,000 jobs. The figures and table below show the depth of the job loss by sector in midyear, and the gradual recovery in jobs by year end.

Figure 1.2 COVID-19-related job losses. Per cent.

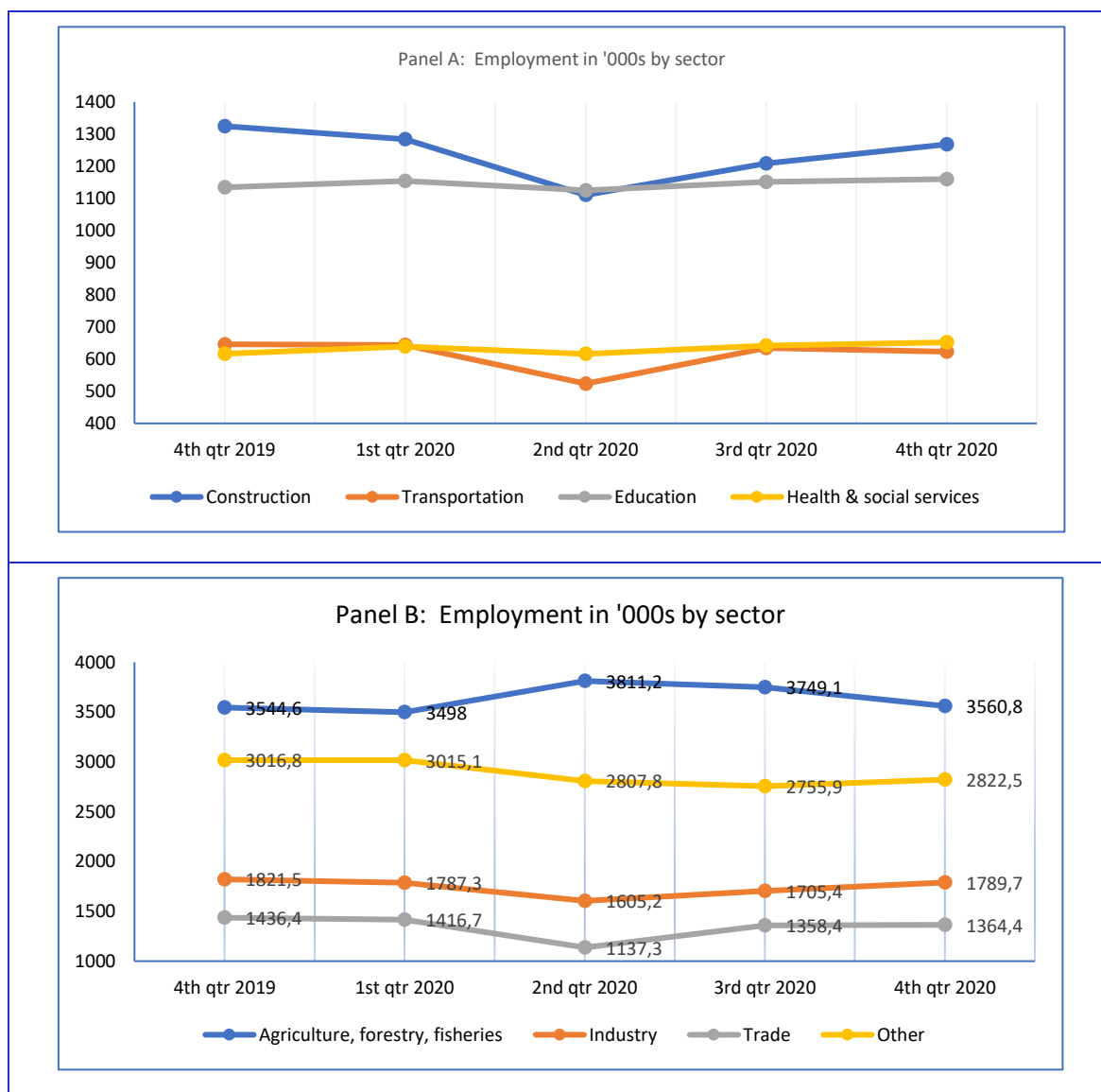


Source: Authors' construction based on UzStat data.

<sup>3</sup> Seitz, W. Tulyakov, E., Khakimov, O., Purevjav, A-O. and S. Muradova, "Dynamically identifying Community-level COVID-19 Impact Risks: Ukraine," (Washington D.C.: World Bank Group, 2020)

The phasing out of the initial lockdowns was reflected in some rebound of employment by the third quarter of 2020, as shown in panels A and B of the figure 1.3 (below).

Figure 1.3 Employment by economic sectors 4<sup>th</sup> quarter 2019 to 4<sup>th</sup> quarter 2020.

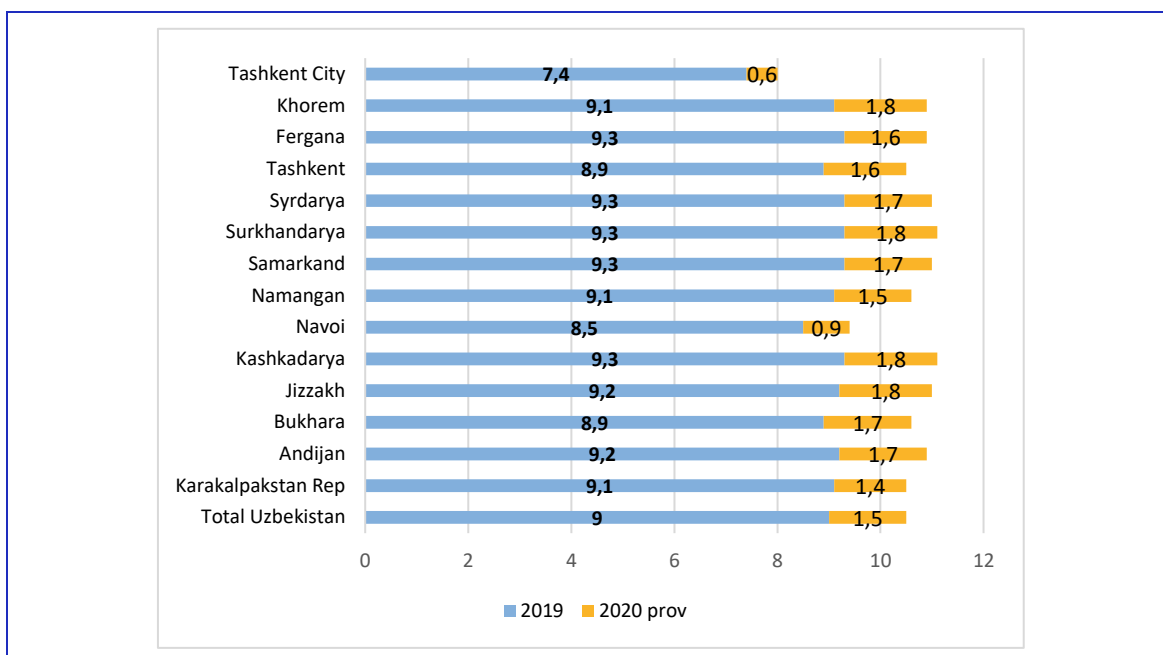


Source: Authors' construction based on UzStat data.

UZSTAT's provisional estimates of unemployment in 2020 show a relatively homogenous rise throughout the country (Figure 1.4). An exception was Tashkent City's larger, more dynamic, and more diversified market, with the country's lowest unemployment rate as well as the lowest increase caused by the pandemic.



Figure 1.4 Provisional unemployment rates 2020 over 2019 by region. Per cent.



Source: Authors' construction based on Stat.uz data.

Agricultural employment has been an outlier in an otherwise declining trend in employment (Figure 1.3, Panel B). While the sector's role as a distress buffer is not new – the wrenching, immediate post-Soviet years witnessed an increase in the share of agriculture in most formerly Soviet states – other factors account for agriculture's resilience. For one, the pandemic coincided with the onset of the growing season and thus with a natural increase in agricultural labour demand. For another, activity in the rural sector was for obvious reasons less affected by a commercial lockdown.

### Private, informal, and small economics units most affected

The employment effect has been greatest in small and micro enterprises, for the self-employed and individual entrepreneurs. As such, the employment effect has been concentrated (1) on the private sector, and (2) disproportionately among informal workers. (50 per cent of the Uzbek labour force is informal.) Seitz et al. (2020, 9) note that: "In April, the share [of self-employed] reporting any self-employment income fell by 67 per cent in comparison to the previous month, and remained down 26 per cent in June." Many in these categories are informally employed. One estimate suggests that up to 1 to 1.3 million workers in Uzbekistan's informal economy could be subject to job loss. ILO (2020, 34) records that: "the most severely affected kinds of self-employment were for labour migrants, menial workers, private transport services, and construction."<sup>4</sup>

### Outward Migration collapsed and poverty rose

Labour migration, largely to the Russian Federation and Kazakhstan, is a long-standing feature of the Uzbek labour market. Approximately 2.5 million young Uzbek men work abroad. They come from rural regions, and, of these, the poorest rural regions. Their remittances have been, at their highest, the equivalent of about 10 per cent of GDP, and have played a substantial role in poverty reduction.

The share of households receiving remittances fell by 54 per cent in April 2020 over the previous April. For households continuing to receive remittances, their value fell by 21 per cent, reflecting the demand for labour in migrants' destination countries, as well as the depreciation of the Russian rouble. Those planning to migrate fell to near zero. **What's happened since?**

Uzbekistan's long and impressive record in poverty reduction has been reversed by pandemic. The World Bank estimates that poverty rose in 2020 to a level of 8.7 to 10 per cent, an increase of between 500,000 and 880,000 newly poor, from a pre-pandemic level of 7.2.<sup>5</sup>

<sup>4</sup> ILO. 2020. *Assessment of the impact of COVID-19 on the socio-economic situation in Uzbekistan: Income, labour market and access to social protection*, (Moscow)

<sup>5</sup> The figures refer to an international and not national poverty definition.



## Education, employability and entry into the labour market: A focus on youth

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The foregoing discussion of labour market dynamics displayed the quantity of labour supply through 2030, the date at which Uzbekistan's working age population will return to the lower levels seen before the decade of the 2020s. In the interim, since the 2010s, the country is experiencing the potential for a demographic dividend. A demographic dividend has the potential to occur when new entrants to the labour market swell the labour market as sources of productive labour supply.<sup>6</sup> The potential for a "dividend" arises when a productively employed labour force in itself adds an increment to existing GDP growth. This increment arises from the fact that household dependency rates decline, in Uzbekistan's case, both because of the surge of new entrants to the working age population and because of the country's intent to lengthen the retirement age. An increment to the economic growth could then occur through a decline in household dependency rates translating into greater household income, and consequently increased consumption.

The "dividend", however, can only occur if there is sufficient aggregate demand to convert the working age population into productive employment rather than result in increased unemployment, under-employment, outbound migration or inactivity.

Harvesting this potential has thus far eluded the country. Recent years with the exception of 2018 had seen a decline in GDP growth. New entrants to the labour market have mainly been in the private-sector informal economy rather than in the public sector. In short, aggregate demand has been unable to convert new entrants to the labour force into productive jobs in the formal sector.

We note at the outset that this is largely a problem of the inadequate demand for labour to employ all those who would wish into formal, productive jobs. This is the fundamental problem, although this problem does preclude challenges relating to the quality of labour supply. The latter are evident in the country's education system. These challenges are plainly recognized by Uzbekistan's government which since 2017 has introduced a variety of reform measure, measures, however, that will take time before they bear fruit. The majority of these measures are set forth in the country's 2nd Education Sector Strategy 2019-2023.<sup>7</sup>

### 2.1 A well-funded, but truncated education system

Relative to its Central Asian and Caucasian neighbours, Uzbekistan spends a lot on education and has reaped impressive results through almost universal education through secondary education as revealed by enrolment rates and almost universal literacy. While enrolments rates differ from completion rates, even the latter are high with an estimated out of-school rates of 3 per cent in primary and 5 per cent in secondary.<sup>8</sup> Compulsory education has been extended from 9 to 11 years, or from ages 7 to 17. Special secondary or vocational education now offers a more flexible array of options between 6 months to 2 years of duration. Private technical education providers offering targeted training needs are available for even shorter duration.

Conspicuous relative to its neighbours, however, is the truncated nature of the education system with lower-than-average enrolment and facilities for pre-school education as well as for higher or tertiary education. The international literature is consistent in finding that pre-schooling conveys tools for learning, emotional and social development that prove beneficial in later years of life. The benefits appear to be less than in school-related, educational terms than in behavioural terms. In the case of Uzbekistan there may ancillary benefits in that children in pre-school might free up opportunities for the greater labour force participation of women whose employment rate relative to men's is about 20 per cent lower and explained largely by female inactivity rather than unemployment. Presidential Decree "On measures for fundamental enhancement of the pre-school education system," September 9, 2017 speak to the Government's intent in this area. On the other hand, female labour force participation is more highly correlated with level of educational attainment than is that of males.

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<sup>6</sup> UNICEF, quoted in Government of Uzbekistan. 2019. *Education Sector Plan (ESP) of Uzbekistan 2019-2023*. P 7.

<sup>7</sup> Government of Uzbekistan. 2019. *Education Sector Plan (ESP) of Uzbekistan 2019-2023*.

<sup>8</sup> World Bank and United Nations. 2019.

Figure 2.1 Female employment rates in selected CIS countries

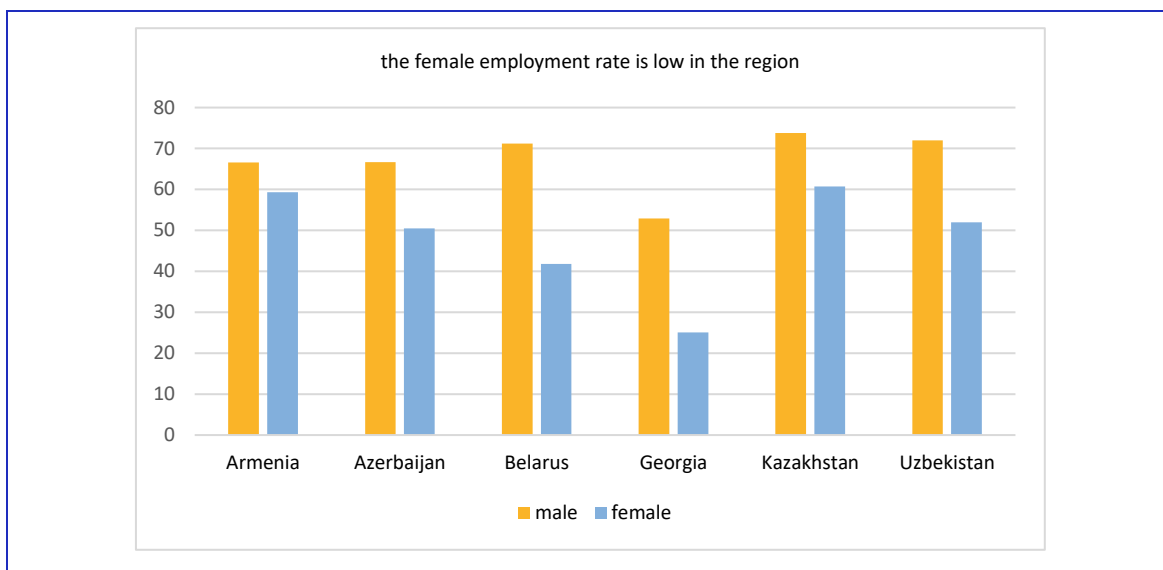
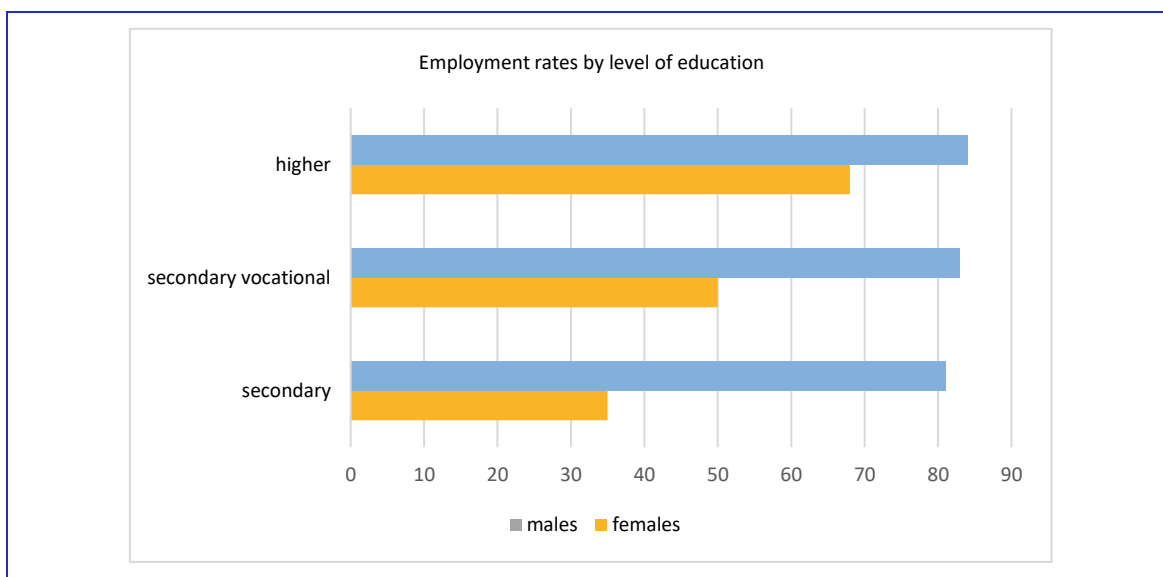


Figure 2.2 Employment rates by level of education



Source: UNDP (2018), cited in UNESCO (2019)

Also conspicuous is Uzbekistan's comparatively low enrolment in tertiary education. Because of a quota system, only about 10 percent of potential entrants to universities are accepted. Uzbekistan's goal to become an upper middle-income country by 2030 will rely inter alia on the human capital base to attain this.

Table 2.1 Projections of tertiary enrolment

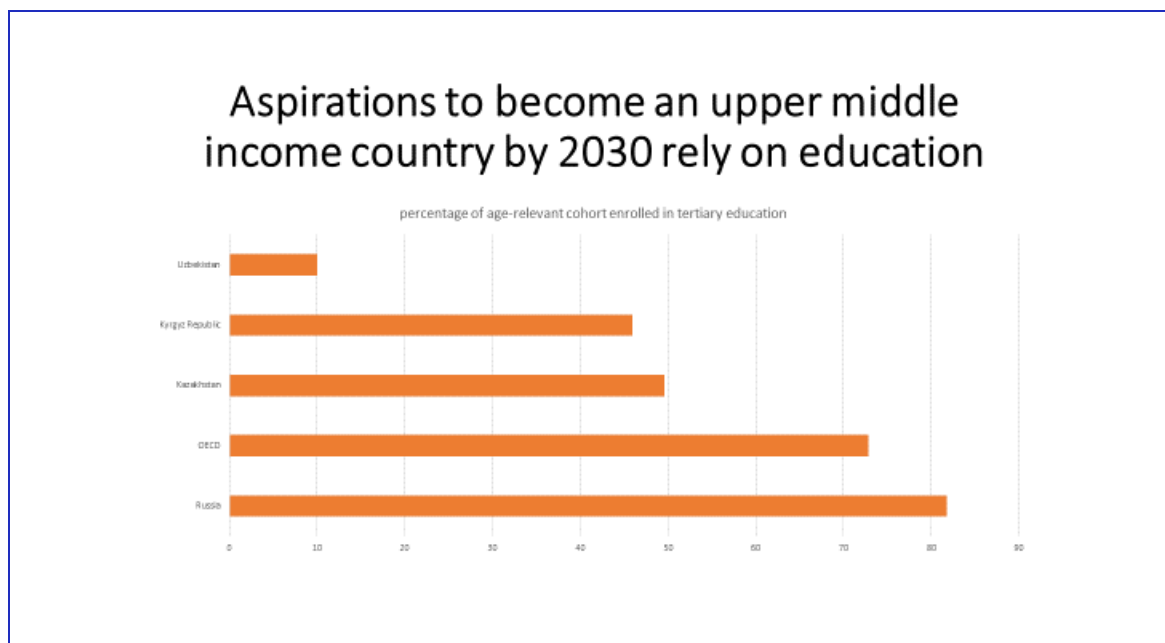
	2016	2017	2018	2019	2020	2021	2022	2023
Tertiary enrolment rate %	9	10	10	10	12	13	14	15
Enrolment level, 1000	268.3	281.0	281.0	281.9	329.5	349.9	371.2	3955
Expenditure UZS (bns)	643	720	1,165	1,600	1,950	2,340	2,775	3,154

Source: Government (2019).

Note from table 2.1 the projected increase in tertiary enrolment from 2019-20. According to the Ministry of Higher and Specialized Secondary Education (MHSSE), this target was indeed reached, with an additional 146,518 students enrolled over this time period, with an equivalent increase planned for 2020-21. The figures in Table 2.1 reflect these enrolment increases in net terms, i.e., minus those who will have graduated.<sup>9</sup>

The table above shows the intended Government response over the life of the 2nd ESS. The cost of this expansion – above twice the level of spending on higher education in 2019 – will nonetheless still result in a relative minor increase, from 5 to 6 per cent, of the total amount spent on public education in the country.

Figure 2.3 Percentage of relevant cohort enrolled in tertiary education



Source: UNESCO (2019).

### There is a gulf between what is taught and its relevance to the labour market

One would be correct in arguing that the sole purpose of an education is not its relevance to the labour market. That said, it is equally undesirable that schooling be irrelevant to labour market needs. There are indications that the latter is a problem. A recent UNICEF report surveying the views of 4,500 students notes that: “most students currently perform below expected curricular standards in their ability to ‘apply’ their knowledge and use it for reasoning. Employers are not satisfied with the skills of their employees, especially non-cognitive skills such as ‘taking responsibility for one’s own actions’, ‘self-motivation’, and ‘creativity’”.<sup>10</sup> Reciprocally, students themselves report that schools fail to teach them how to flexible and adaptable to different situations, and do not teach leadership skills.

Many students, dubious of their chances for wage-earning jobs in the public or private sector, “wish that schools would impart more knowledge on entrepreneurship, such as how to obtain a loan, or how create a client base. There appears, moreover, to be a significant divide between students’ desires to acquire and improve their digital skills, and both the current knowledge base of teachers in this area, as well as the availability of computers in schools.”<sup>11</sup>

UNICEF’s student survey raises another issue that skews participation in education and even the labour market in an unequal fashion – “monetization”. There is widespread use of private tutors by students whose parents can afford it, constituting a disadvantage to those who cannot afford it. Bribery is apparently not uncommon. This is applied to purchasing a final grade, for example, or in being admitted to higher education. As UNICEF notes: “this reality intricately entangles a young person’s future opportunities with his or her family’s present economic capability and this puts barriers in the way of their aspirations and social mobility”.<sup>12</sup>

Subjective surveys such as the UNICEF one are often good at offering cultural insights into how people evaluate choices. Students surveyed in Uzbekistan consider having no “connections” to be a constraint on getting the job they would like. This concern is not uncommon. Nor, however, is it likely to be distinctive solely of Uzbek youth -- but shared more generally by young people quite irrespective of the country. Characteristic of Uzbek students, although, again, not necessarily a distinctive feature, the decision of the parents is the most important factor when students are asked what

<sup>9</sup> Authors’ communication with MHSSE of the Republic of Uzbekistan, September 2020.

<sup>10</sup> UNICEF (2020), p.39.

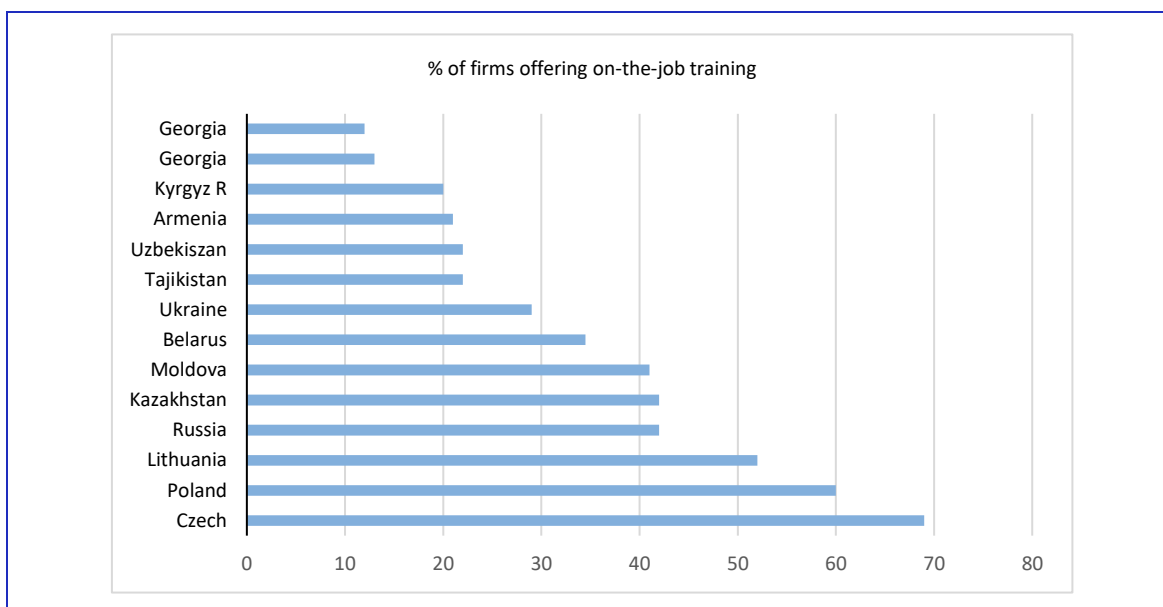
<sup>11</sup> Ibid., p.41.

<sup>12</sup> Ibid., p. 44.

could stop their pursuit of further education; this is particularly so for female students.<sup>13</sup>

Employers complain of skill shortages – 50 % of employers in “industry” for example. But curiously, Uzbek employers are among the lowest in the region to offer in-house and on-the-job training or apprenticeships or internships, (see Figure 2.4 below). It is true that, among reasons for this, is the overwhelming number of largely informal SMEs in the economy and these enterprises often have neither the administrative nor financial capacity to invest in training. Still, skill shortages amidst an abundant potential labour supply are a concern

**Figure 2.4 Per cent of firms offering on-the-job training**



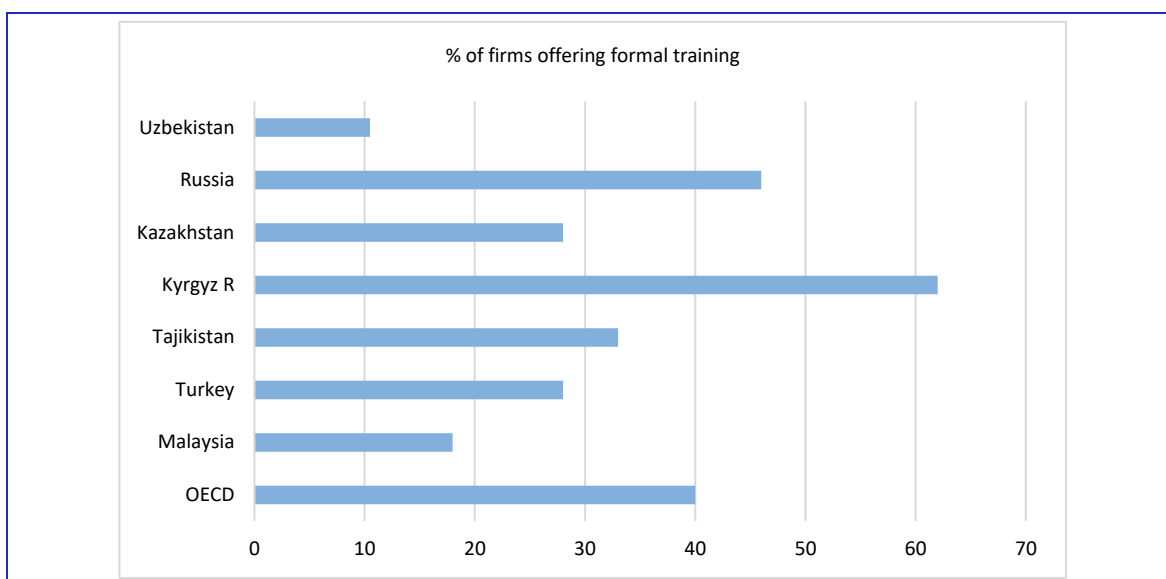
Source: Ajwad et al. 2014

From graduates’ point of view, the picture appears a mirror opposite: a majority claim that they are unable to find suitable, available vacancies in the labour market. Over 50 percent of graduates wind up finding a job in a skill or occupation for which they were not trained.

Uzbekistan’s situation is still more unusual when one compares it with other countries’ firms offering not just on-the-job, but more formal training (Figure 2.5). On its own, the figure is difficult to interpret without additional information. Relative to other countries, do Uzbek firms rely more on the country’s public education system? If employers claim skill shortages, is this because the skills they require in a rapidly evolving labour market are not offered by the education system, or they are offered, but are inadequate for firms’ needs? An enterprise survey, which does not exist in Uzbekistan could be able to shed light on these issues. Far greater employer involvement in the design and management of professional education is chief among UNESCO’s recommendations.

<sup>13</sup> Ibid., pp. 53-54.

Figure 2.5 Per cent of firms offering formal training



A recent, comprehensive analysis undertaken by UNESCO of the Technical and Vocational Training system in Uzbekistan identifies a substantial number of problems to be addressed as the country moves away from a supply-oriented approach to general and vocational training toward on more attentive to a private-sector, demand-oriented one. These are shown in the table below.

Table 2.2 Key challenges in narrowing the gap between supply and demand in the labour market

1.	Multi-sector dialogues and partnerships on curriculum are currently underdeveloped in Uzbekistan. The involvement of the business sector seems particularly underdeveloped
2.	There is not enough labour market analysis, no mechanism for anticipating and evaluating skill requirements and, in any case, no capacity for collecting and analysing the data upon which to make decisions
3.	There are no enterprise surveys, occupational demand and supply outlooks, and thus no identification of the skill needs of industries
4.	There are no tracer studies of TVET graduates and thus no real quality control of the output of the TVET system
5.	There is no body whose mandate is to ensure the delivery of needed skills needed on the basis of labour market (in addition to no knowledge of these needed skills
6.	Generally – but also in the context of the country's inadequate creation of productive jobs in the formal economy – inadequate attention has been given to the training of the self-employed and entrepreneurs who are likely to be highly represented in an emergent private-led market economy
7.	Aside from the successful example of the British Council's support for Sector Skills Committees as a means for identifying and delivering sector skill needs and enabling sector-based labour mobility, no other examples exist
8.	There is no transparent, comprehensive information on the levels and skills delivered by the TVET system. This affects the mobility of skills both inside and outside the country. For example, does the Uzbek plumber have the identical skill set to the Russian plumber?
9.	Students do not receive efficient career guidance and counselling on the content of occupations, on which are in demand, and on to acquire the skills for becoming a credible applicant for these vacancies

Source: Adapted from UNESCO (2019).

In addition to the issues raised in the foregoing table, a more general comment is whether right-headed educational reform policies lose flexibility by remaining overly centralized. In this regard, there are promising developments. First, training curricula and accessed have been very recently expanded. Training opportunities have been introduced in 133 new specialties, and accessing this training has been further enabled by the possibility of correspondence courses and evening classes.

As the concern over excessive centralization of curricular options, the authority to approve curricula and scientific programs in areas and specialties of higher education has been transferred from MHSSE to basic higher education institutions; that is, the higher education institutions themselves have been granted greater independence in their

curricular choices.<sup>14</sup>

Greater local responsiveness (and inclusion of local stakeholders) could add efficiency to policy objectives. How do skill needs differ between urban and rural locations, for example, or are skills in demand identical between Tashkent City and Samarkand? Curricula and content of programs should be adapted to address local needs and engage with local stakeholders.

## 2.2 Promising new institutions

Consideration is being given to the establishment of a **Human Resource Development Council** whose function could be similarly to that of a Labour Market Observatory such as those that exist in some European countries. These function as a sort of clearing house on prospective or forecast demand and supply in the labour market, both nationally and locally. They acquire and assimilate important industry and occupational trends and associate these with skill supply needs whether available or to be developed such as to ensure a well-functioning labour market that anticipates change.

Another mechanism under work is a **National Qualifications Framework** which would certify skills in a variety of occupations whether the skills have been acquired through formal training or acquired experience. As noted in Table 1, the advantage of such a framework would be in furthering labour market mobility, and reducing information asymmetry in the job-matching process. More broadly, investors, including foreign director investments often use the availability of needed skills as a factor in their investment decision-making.

The education and training reform agenda in Uzbekistan is impressively comprehensive. Among initiatives currently tabled is a major project on the “Development of Skills for a Modern Economy in Uzbekistan” proposed jointly with the Asian Development Bank and with the overall objectives of improving the linkage between the labour market and the vocational training system and the establishment of sector skills councils strengthening the linkage between the demand for and supply of labour in manufacturing industries.

On May 15, 2020, a Cabinet Resolution was adopted toward the approval of the National Qualifications Framework, the creation of a Republican Council for the Development of Qualifications and the creation of a national system for assessing competencies through assessment centres under the auspices of the Ministry of Employment and Labour Relations. Also in 2020, Uzbekistan became the 83rd member of WorldSkills International, which seeks to promote youth employment through providing vocational competencies that unite young persons’ aspiration with skills needed and demanded by the labour market.

The 2nd ESP<sup>15</sup> is a document of laudable ambition which, when implemented, promises a substantial way forward for Uzbekistan’s education and training system. Relative to the reform of pre-school education, for example, a new ministry, the Ministry for Pre-School Education, was established to that very end in 2018.

### A shift from content-based to competency-based learning

The 2<sup>nd</sup> ESP, in assessing the quality of the education system speaks to a shift in pedagogical methodology from content-based to competency-based learning. This is a profound re-orientation, less in “what” students learn, but in “how” they learn it. It represents an important migration from what had been a more Soviet-based model of pedagogy representing a more unquestioned memorization of facts to one that engages a more creative, problem-solving learning approach to promote what Uzbekistan’s National Action Strategy calls “independently thinking youth”. The 2nd ESP articulates the rationale:

“Quality of curriculum is an important building block in ensuring children’s learning outcomes improves and youth’s potential in the job market is enhanced. A key curriculum reform challenge is to develop and successfully implement a new basic education curriculum at various levels of education that is more relevant to all students, focusing on 21st century skills, soft skills (including personal development and employability skills) and higher order thinking skills... to understand new concepts ... appropriate for the country’s modern economy and changing society needs”.<sup>16</sup>

The plan certainly recognizes the monumental nature of this pedagogical change and the time required to implement it: “the shift from a content-driven current curriculum to a more competency-based learning approach would require reforming the associated teaching-learning materials, especially the textbooks, together with an adaptation of the pre-service and in-service (re-)training of teachers and the overall approach to examinations and assessments of learning outcomes.”<sup>17</sup>

### Assessing Performance

There are international standards for measuring the relative performance of educational systems through student

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<sup>14</sup> Authors’ communication with MHSSE, September 2020

<sup>15</sup> Government of Uzbekistan. 2019.

<sup>16</sup> Government of Uzbekistan. 2019. Section 4.4.3.

<sup>17</sup> Ibid.

outcomes. Uzbekistan has traditionally not participated in these international measures, although has signalled its attention to participate in what is perhaps the best known of these, the OECD's Programme for International Student Assessment (PISA). Wikipedia describes the study.

"The Programme for International Student Assessment (PISA) is a worldwide study by the [Organisation for Economic Co-operation and Development](#) (OECD) in member and non-member nations intended to evaluate educational systems by measuring 15-year-old school pupils' scholastic performance on mathematics, science, and reading. It was first performed in 2000 and then repeated every three years. Its aim is to provide comparable data with a view to enabling countries to improve their education policies and outcomes. It measures problem solving and cognition".<sup>18</sup>

The Government of Uzbekistan has signalled its interest in participating in the next round of study and thus be able to benchmark its students' achievement relative to other countries.

### Data Inadequacies, but recent improvement

The 2nd ESP foresees the creation of two new monitoring mechanisms for its reform initiatives. The first is a national assessment framework which would enable authorities to assess progress of its reform agenda in both a central and decentralized, i.e., individual school, manner. The second is a national curriculum framework, which should ensure consistency in application of curricular reforms across the educational system. A national higher education framework is to be created to evaluate the reform process at the tertiary level.

Monitoring and evaluating the outcomes of reform, of course, rely on the data to do so and the capacity to analyse those data. These are currently lacking. Upgrading current monitoring and evaluation capabilities will require a significant investment in training for data collectors, data users, and, more fundamentally still, data analysers.

Well beyond the education system alone, data inadequacy, data disclosure, and data analysis constitute the major impediment to monitoring and evaluating the numerous reform proposals that have been advanced or are underway. The World Bank/UN "MAPS" (Mainstreaming, Acceleration, and Policy Support) report for attaining the SDGs cites the information gap as a major binding constraint:

*"the generation and monitoring of relevant accurate, and disaggregated data and statistics are critical to measuring progress towards SDG achievement....Uzbekistan' rapid progress in SDG nationalization is constrained by limited data availability"*<sup>19</sup>

Indeed, in statistical capacity, Uzbekistan had ranked among the lowest in the world in 2016 – number 121 of 145 countries. It is all the more welcome, therefore, that Uzbekistan has made rapid progress toward improvement within the span of four years to rise to number 67.<sup>20</sup>

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<sup>18</sup> [https://en.wikipedia.org/wiki/Programme\\_for\\_International\\_Student\\_Assessment](https://en.wikipedia.org/wiki/Programme_for_International_Student_Assessment)

<sup>19</sup> World Bank and United Nations. 2018. P.5.

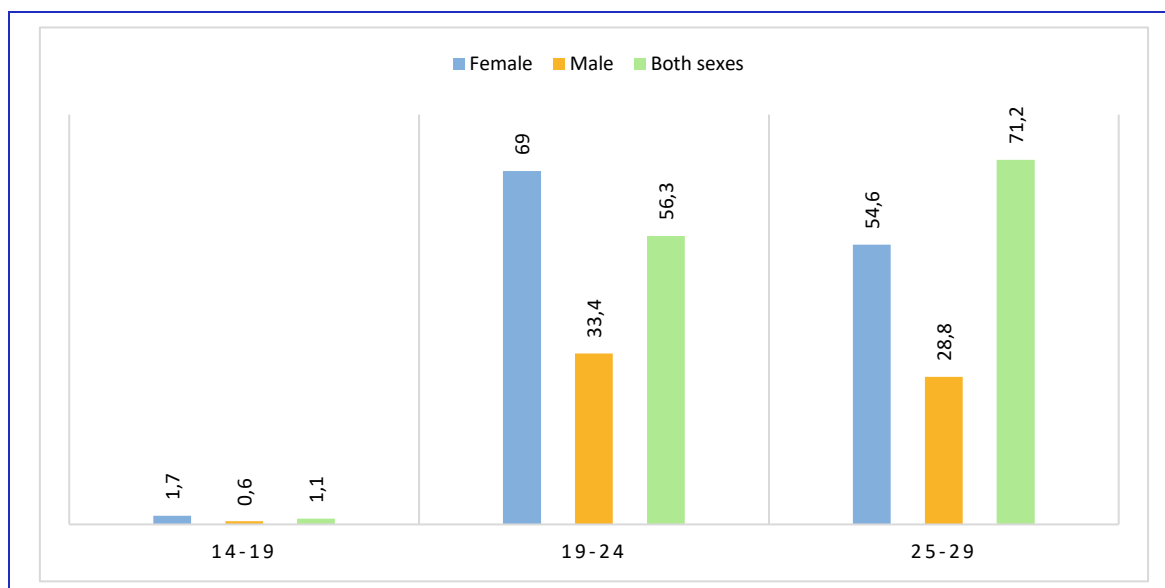
<sup>20</sup> World Bank data cited in stat.uz



## 2.3 The difficult path to employment for youth

When asked what their main concerns are for the future youth in Uzbekistan put ‘finding a good job’ at the top, far above anything else.<sup>21</sup> Other employment related concerns, such as failure to acquire necessary life skills, at 30 per cent, and ‘inability to gain initial work experience’ and ‘lack of success at work due to inadequate skills and education’ at 15 per cent each. There are good reasons for these concerns.

Figure 2.6 Percentage of youth neither in education nor in employment by age groups and sex, 2019.



Source: UNICEF. 2020. p. 48.

Table 2.3 Percent of youth in education, employment or NEET by sex and age rural and urban areas, 2019.

	Males			Females			Rural	Urban
	14-19	20-24	25-29	14-19	20-24	25-29		
Student	97.9	17.6	3.2	97.5	14.6	2.9	40.2	36,7
Employed	1.6	49.0	72.0	0.8	16.4	23.2	26.4	22,8
NEET	0.6	33.5	24.8	1.7	69.0	74.0	33.4	40.5

Source: UNICEF, 2020, p. 48.

A large youth survey undertaken by UNICEF in 2019 and covering some 4,500 youths aged 15-29 revealed that 55 per cent of youth aged 20-29 had left education but were not (yet) in employment (NEET) (Figure 2.6 and Table 2.3). The fact that the NEET rate was almost as high among those aged 25-29 as among the 20-24 years old youth suggest an exceptionally long transition period from education to employment, but also that many never make the transition. Prolonged and disrupted transitions from education to employment affect young women much more than men. The survey showed that while half of all young men aged 20-24 and 72 per cent of those aged 25-29 were employed, even by the age of 25-29 less than a quarter of the young women were in employment. It would seem that for many, if not most young women, marriage and household and family duties intervene and put an end to any aspirations to find an employment and enter the world of work. The same survey found that while the female share of unmarried NEETs was ‘only’ 56 per cent, it rose to 88 per cent among the married NEETs.<sup>22</sup> In other words, while for men marriage induces, or is conditional upon employment, for women the opposite is the case.

Cultural factors and pressure from family and relatives to put marriage and household and care responsibilities before employment and even not to pursue education beyond the compulsory eleven years weigh heavily young women in both rural areas. When asked why they were not continuing their education, some 62 per cent of the young women in the

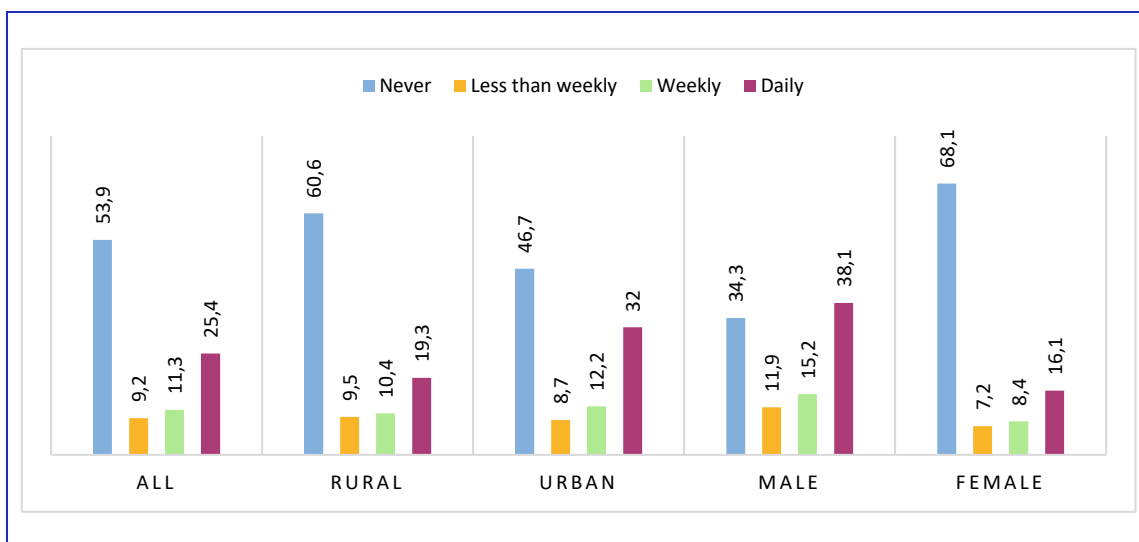
<sup>21</sup> UNICEF. 2020. Youth of Uzbekistan: Challenges and Prospects (Tashkent, 2020). P. 107 “Inability to find a decent job” was stated to be one of their three most serious concerns by 45 per cent of youth aged 15-30 in a large survey of 4500 youth in 2019.

<sup>22</sup> UNICEF. 2020. P. 57.

UNICEF survey in 2019 gave the answer “busy with household work and care of household members”.<sup>23</sup>

However, there are other reasons as well why Uzbek youth do not always attain the education and skills needed to make them attractive on the labour market. As discussed earlier in this chapter the very high rates of secondary school completion are clouded by shortcomings with regard to the quality, relevance and affordability of education. As is the case in most countries such shortcomings play out much more strongly in rural and in urban areas.

**Figure 2.7 Frequency of use of internet by sex and rural and urban areas. Percentages.**



Note: Figures do not add up to 100 per cent due to some no answers

Source: UNICEF. 2020. pp 114, 122.

Computer literacy is arguably a key indicator of employability and a computer literate work force is crucial for rapid economic development and transformation as envisaged by government. Computer literacy is also the one area where young people have a distinct edge over older adults on the labour market. Yet, 43.5 per cent of young women (aged 15-29) and 30 per cent young men interviewed in the UNICEF survey stated that they have no computer skills, yet the desire to learn (better) how to use a computer was overwhelming.<sup>24</sup>

Access to internet is far from universal and highly unequal. Young women are at a distinct disadvantage over young men and rural youth are disadvantaged compared to urban youth when it comes to internet access (Figure 2.7). More than two thirds of young women (aged 15-29) never use internet, compared to slightly more than one third of the young men and only 60 per cent of rural youth have access to internet, compared to 47 per cent of urban youth. There is a glaring gap between a quarter of the youth who use internet on a daily basis and the majority (54 per cent) never use it (Figure 2.7). It seems inevitable that this computer divide will increasingly also translate into inequality in access to productive and attractive employment opportunities for youth.

Weaknesses and inequalities in employability among youth are compounded by problems of access to productive jobs. Uzbekistan has a comprehensive system of state employment services. However, it was set up to serve an economy dominated by state and public actors and needs to reform its modes of functioning in order to maximise its potential to serve as an efficient institution for active labour market intermediation and policies in a new economic context increasingly dominated by a multitude of private actors. Such reform has already been decreed and is in progress. As the institutions for labour market intermediation are discussed in greater detail in Chapter 5, the focus here will be on a few specific issues.<sup>25</sup>

It would appear that Uzbek youth have a very low propensity to be mobile. Four out of five young people aged 15-29, in both rural and urban areas would not like to move to another city or village in the country and an almost equally high share would never consider moving abroad.<sup>26</sup> The unwillingness to move would appear to be almost as high among young male as among young women. Low geographic mobility inevitably limits labour market access and choice and chances of employment, in particular in rural areas where good jobs are far and few between. It also has major implications for economic and employment policies and the need for regional and local strategies for economic development and employment creation.<sup>27</sup>

<sup>23</sup> UNICEF. 2020. P. 56.

<sup>24</sup> UNICEF. 2020. P. 113-114. Well over 85 per cent of the interviewed youth expressed a wish obtain better computer knowledge.

<sup>25</sup> For more details, see Chapter 5.

<sup>26</sup> UNICEF: 2020. P 89.

<sup>27</sup> This particular aspect is addressed in greater detail in Chapter 4.

The economic transformation towards a market economy with a plethora of private firms of all sizes not only calls for a complete overhaul of the system of labour market information, but also enhance the importance of comprehensive, up-to-date labour market information that is easily accessible to all. Such a system has yet to be fully established. Computerisation and creation of an internet-based system of labour market information is undoubtedly an important aspect of the building of a modern system for labour market information. However, it is not a panacea. It has limitations and can be a source of inequality in a situation where large parts of the population, in this case youth, do not have internet access. Providing rural youth with access to job counselling as well as labour market information stand out as a particular priority in view both of their lack of geographic proximity to major labour markets and lack of internet access.

**Table 2.4 Sector of employment among employed youth and 15-29, 2019. Percentages.**

	<b>Total</b>	<b>Female</b>	<b>Male</b>	<b>Urban</b>	<b>Rural</b>
Public sector	35.2	55.5	25.2	35.4	35.0
Private business	35.7	26.2	40.4	40.0	31.0
Entrepreneur, start-up	17.4	10.2	20.9	15.7	19.4
NGO	2.9	1.7	3.6	3.1	2.6
No answer	8.7	6.1	10.0	5.6	11.9

Source: UNICEF 2020. P 50.

A quick review of the choice of employers and types of employment among the employed youth reveal distinct gender differences (Table 2.4). Some 55 per cent of the employed young women work in the public sector / public firms, as against 35 per cent of the young men. By contrast, young men are more strongly represented in private businesses and new start-ups or as entrepreneurs. These figures show a picture that is common to many countries, yet it has important implications. The scope for public sector employment is finite, typically defined by government decisions and constrained by public finances. Efforts to increase labour market participation and employment among young women must therefore also, and not least, focus on breaking down gender-based occupational segregation and open up and attract young women to new occupations and jobs, in particular in the private sector. The high share of employed in new 'start-up's and entrepreneurs among the employed may in many ways be laudable. However, it should also ring an alarm bell. The UNICEF survey showed that particularly in rural areas youth often become entrepreneurs and try to set up their own business because no other jobs and means of securing a livelihood are available. The chances of success are clearly much smaller for someone pushed into entrepreneurship by force of circumstances than somewhat attracted to set up a business because of perceived opportunities and with a credible business plan.

## 2.4 Concluding remarks

The consequences – the “output” – of major reforms to education systems are of course never immediate, but show up in the medium term. Both encouraging and noteworthy, however, is the rapid pace with which the Government has embraced educational reform. For example, in 2019, the average salary of teachers in higher education was increased 2.5 times over 2018! Over the past three years, over 15,000 higher education teachers have undergone advanced training, either directly at training centers, or through remote courses, or, in the case of approximately 2,000 teachers through advanced university training abroad.<sup>28</sup>

The Government’s reform plans for the educational system are extensive, right-headed, and ongoing, which is to say that much depends upon their implementation and, ultimately, the improved quality of labour supply that they are intended to produce. Elements of the reform have been discussed in the foregoing pages. Overall, the intent of reforms in the education sector are to service the lives and aspirations of young Uzbeks, intrinsically, but also relative to a fast-changing economy: the 2nd ESP, for example, makes extensive reference to the need to use ICT as a pedagogical tool for more extensively than it has in the past. The benefits to derive from successfully implemented educational reforms, both in general education and professional education (TVET) will be an improvement in the functioning of the labour market and the attendant effects that this will have on the Uzbek economy during its present transition to a private, market-led economy.

More than half of all youth in their twenties have left education, but have yet to find a job. Easing the transition from education to employment for youth stand out as a the singularly most important challenge for achieving broad-based and inclusive participation of all in the economic development through productive employment and decent work. Far too many, in particular young women, fall by the wayside in the transition from education to employment. The reasons are manifold: a failure of the education and training system to equip young people with adequate knowledge and skills, not least in rural areas; insufficient job openings for young people and geographic mismatches between demand and supply of labour; inefficient labour market intermediation and lack of labour market information etc; cultural factors putting young women at a distinct disadvantage as well as limiting geographic mobility. Therefore, sustained efforts are required on many fronts to enable youth to make the transition from education to employment much more easily. Such efforts will invariably need to have a strong focus on those facing the greatest difficulties, e.g., young women, rural youth and youth from economically disadvantaged households.



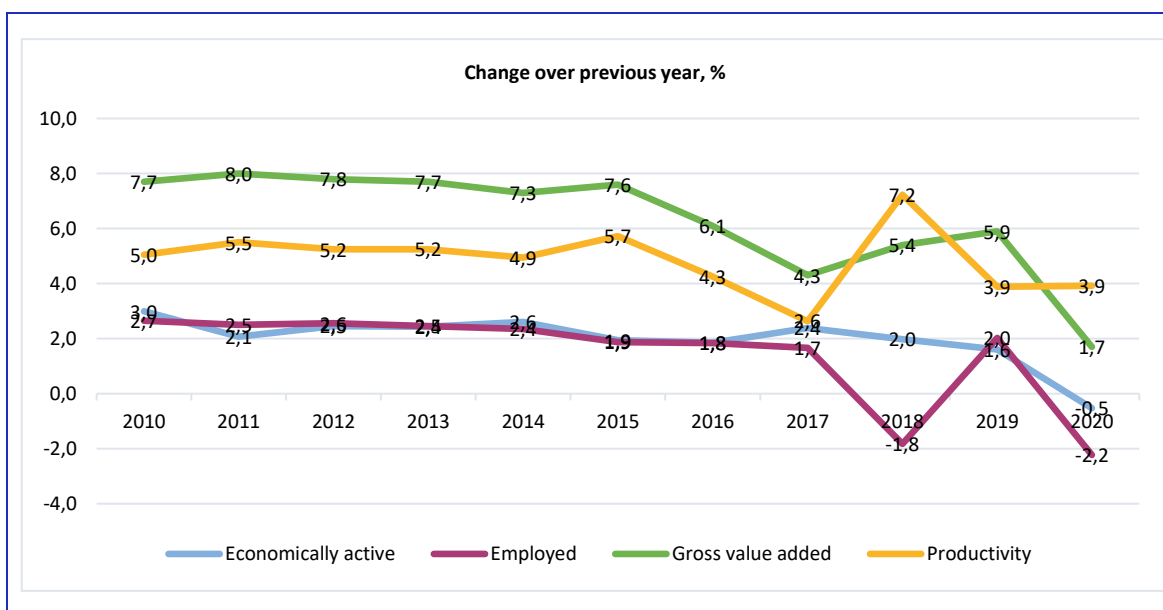
## 3. Economic Development and Employment: Lessons from Past Performance and Looking Ahead

Economic development and productive transformation, that is the movement of labour and other production factors from lower- to higher-productivity sectors (structural transformation) and within-sector productivity growth, go hand in hand. The movement of labour and capital from lower productivity to higher-productivity activities (labour reallocation), and an increased sophistication and complexity of tasks and jobs within sectors are the prime key drivers of economic development. Labour reallocation impacts labour productivity not only directly, through a shift of labour from low productivity to higher productivity sectors, but also indirectly by (i) reducing surplus labour in the source sectors and (ii) fostering economies of scale in the destination sectors. Within-sector productivity growth entails the adoption of innovations, new technologies and modes and organisation of production that increase efficiency and productivity, but it can also follow from economies of scale and external factors such as agglomeration effects. It can come about as a result of the increased efficiency of existing firms or as a result of the reallocation of resources away from the least productive firms towards more productive firms. Increased economies of scale, positive agglomeration effects and increased efficiency and depth of factor and product markets help fuelling the productive transformation. Seen from an employment perspective, Uzbekistan is in the middle of a transformation from an agriculture-dominated to an industrialised economy, a process that is accompanied by a geographic relocation of people from rural to urban areas.

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<sup>28</sup> Authors’ communication with MHSSE, September 2020.

Figure 3.1 Annual growth of gross value added, employment and productivity. Per cent.



Source: Stat.uz.

The Uzbek economy performed well over the past decade until the onslaught of the Covid-19 crisis in 2020. Between 2010 and 2015 GDP grew by over 7 per cent per year. More recently annual GDP growth has fallen to around 5 per cent (Figure 3.1). Over the same period, with the exception of 2018, both the labour force and employment have increased at a steady rate of 2 – 2.5 per cent.<sup>29</sup> Productivity growth has overall been high, initially averaging more than 5 per cent per year, but slowing down somewhat after 2015 as GDP growth fell while employment growth has remained relatively stable.

Table 3.1 Sector composition of total value added and of employment in 2010, 2019 and in 2020.

Percentages.

	Value added			Employment		
	2010	2019	2020	2010	2019	2020
Agriculture	32.9	28.0	28.2	26.8	26.3	27.8
Industry	20.1	29.3	28.5	13.8	13.4	13.1
• Manufacturing	12.4	20.4	21.8			
Construction	5.8	6.6	7.0	8.9	9.2	9.3
Trade	9.3	7.0	6.9	10.6	10.5	10.0
Transport & storage	11.4	7.9	7.2	4.4	4.8	4.6
Other activities	20.5	21.2	22.1	35.5	35.7	35.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: Value added at current prices. Figures for 2020 are preliminary.

Source: www.stat.uz.

A review of the sector composition of GDP (that is the total value added created in the economy) between 2010 and 2019, reveals three key trends:

- a rapid growth in the share of manufacturing from 12.4 per cent of total value added in 2010 to 20.4 per cent in 2019,
- a fall in the shares of trade, transport and storage in total value added and;
- a modest fall in the contribution of agriculture to total value added.

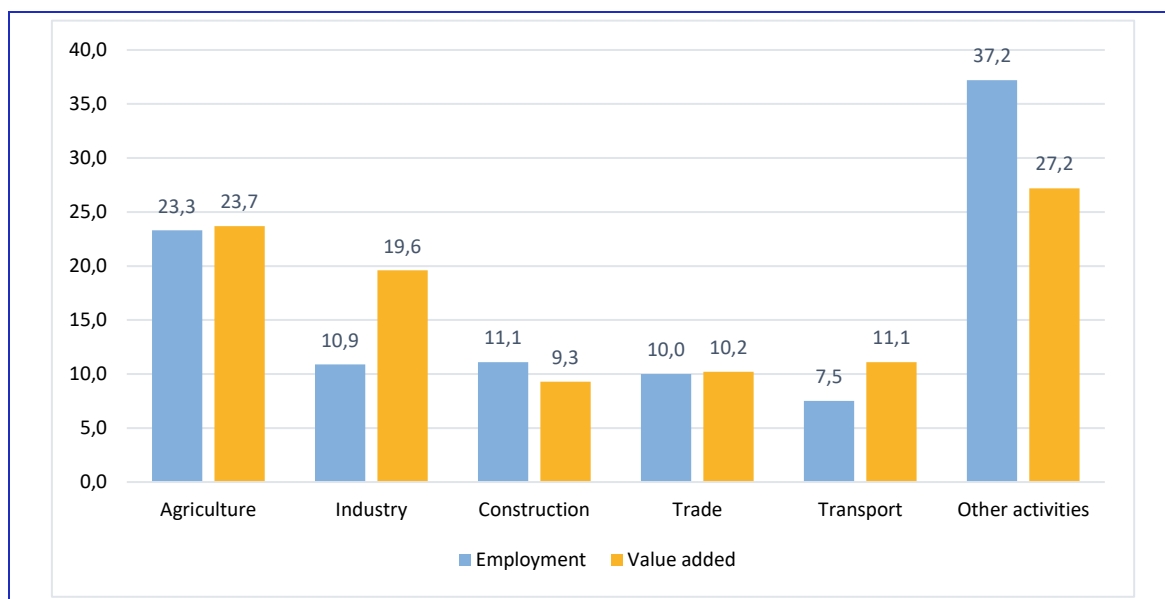
The contribution of agriculture to total value added and to total employment are almost the same, around 26-28 per cent, which is highly unusual in a country that is supposedly in the midst of a productive transformation from agriculture to industry and services. Indeed, while a structural change of the economy would appear to have been as much from services, such as trade and transport, to industry as from agriculture to industry. The contribution of manufacturing and

<sup>29</sup> The apparent large fall in employment and, resulting increase in productivity in 2018 would seem to have largely been a statistical artifact, resulting from a redefinition of unemployment and a massive increase in registered unemployed.

industry more generally to total value added has not only grown rapidly, while its share of total employment has remained virtually constant at around 13 per cent, clearly suggesting that the growth of the industrial sectors has not been accompanied by any commensurate growth in employment. By contrast, the fall in the share of trade in total value added has not been accompanied by any similar fall in its share of total employment.

There appears to be a disconnect between structural changes of the economy and of employment, as the sector composition of employment would appear to have changed very little over the period. The share of agriculture in total employment has remained constant at around 26-27 per cent, as has the share of industry, an indeed, all other main sectors. Unfortunately, information on manufacturing employment were not available.

**Figure 3.2 Sector contribution to total growth of employment and value added 2010 – 2019. Percentages.**

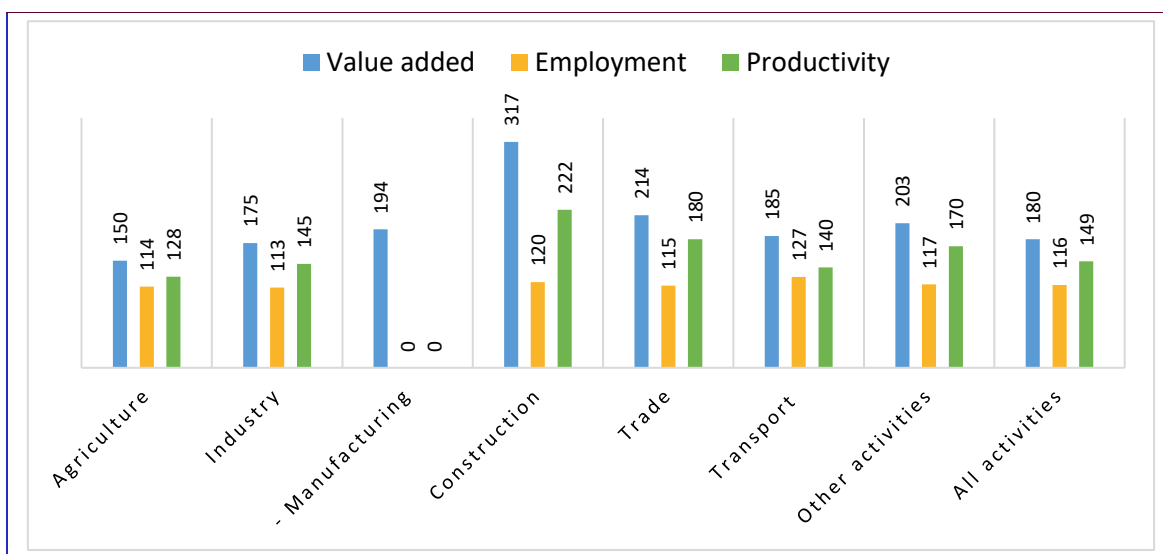


Note: Value added at constant 2015 prices

Sources: [www.stat.uz](http://www.stat.uz) and UN National Accounts <https://unstats.un.org/unsd/snaama/>

Figure 3.2 shows the sector contribution to growth to total employment and economic growth between 2010 and 2019. The importance of agriculture is remarkable. Agriculture remained the main contributor to both employment and economic growth between 2010 and 2018, at 24 and 23 per cent respectively, which is higher than one would expect in an industrializing country. The growth of the industrial sectors, that is mainly manufacturing, accounted for about one fifth of the total economic growth, but only 11 per cent of the employment growth. Other activities, dominated by education, health and other public services accounted for 37 per cent of the employment growth and 27 per cent of the economic growth.

Figure 3.3 Growth of value added, employment and productivity 2010 – 2019. Index: 2010=100.



Note: Value added at constant 2015 prices

Sources: [www.stat.uz](http://www.stat.uz) and UN National Accounts <https://unstats.un.org/unsd/snaama/>

A breakdown of sector growth by its two main components, employment growth and productivity growth, yields a few main conclusions (Figure 3.3).

- Both employment and productivity has increased in all sectors.
- Productivity growth has been faster than employment growth in all sectors.
- In other words, in no sector has employment growth taken place at the expense of productivity and no sector has seen truly jobless growth. As noted earlier the rates of employment growth have been surprisingly uniform across the economic sectors. As a consequence, differences in the rate of growth of value added have resulted in large variations in the rates of productivity growth.
- For instance, productivity in the construction sector more than doubled over the period.

High rates of economic growth over most of the past decade combined with modest rates of labour force growth resulted in a growth that was primarily driven by productivity growth, rather than employment growth. It should however be noted that declining rates of economic growth in the years leading up to the Covid-19 pandemic will have resulted in a fall in productivity growth as employment growth has remained more or less constant. As employment rates have changed little over the period, with the exception of the somewhat artificial fall in 2018, the rapid productivity growth should be seen as largely positive as by and large it has not taken place at the expense of job creation. However, the combination of rapid productivity growth in most sectors and a significant increase in unemployment would seem to indicate skills mismatches or geographic mismatches in the supply and demand for labour and that the labour market does not function as well as one might wish.

**Figure 3.4 Employment elasticity of growth by main sectors 2010-2019**

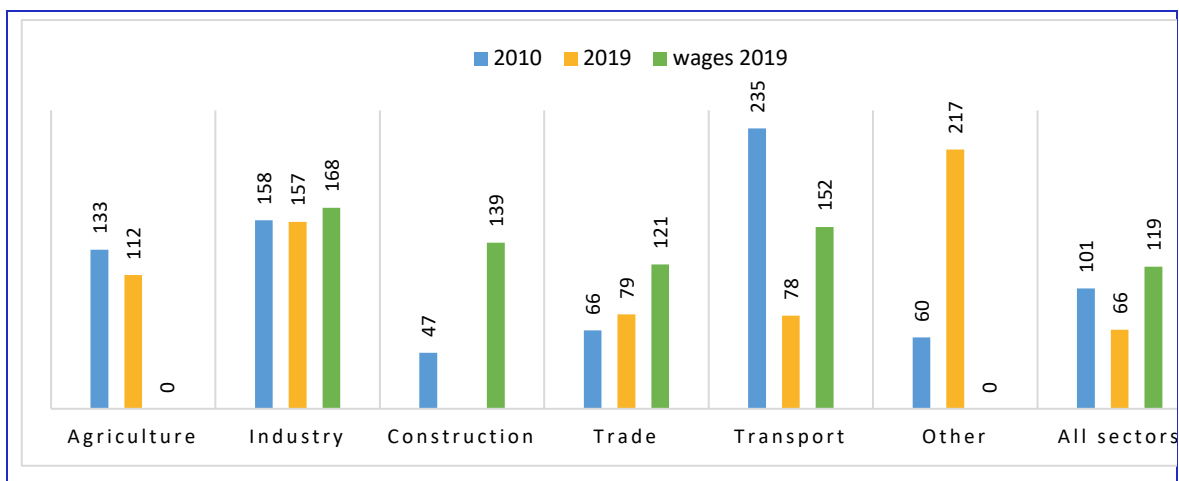


Note: Employment elasticity of growth calculated as per cent employment growth resulting from one per cent growth of value added.  
Sources: [www.stat.uz](http://www.stat.uz) and UN National Accounts <https://unstats.un.org/unsd/snaama/>

The dominance of productivity growth is also reflected in low employment elasticities of growth, which stood at 0.2 for the economy as a whole over the 2010-2019 period (Figure 3.4). In other words, 5 per cent economic growth resulted in a one per cent growth of employment.

As one would expect, the employment elasticity varied across sectors. Still, even in agriculture it was a mere 0.28.

**Figure 3.5 Sector productivity and wages. Index: National average = 100**



Sources: [www.stat.uz](http://www.stat.uz) and UN National Accounts <https://unstats.un.org/unsd/snaama/>

The sector pattern of productivity levels matters because productivity levels set the parameters for income from employment and wages (Figure 3.5). Large differences in productivity across sectors indicate that incomes are also likely to vary greatly between sectors and can be an indication of a mismatch between the sector composition of the economy on the one hand and of employment on the other hand. In a country undergoing rapid industrialisation and structural change productivity tends to be highest in the rapidly growing sectors and lowest in the sectors with falling shares of GDP, in particular agriculture.

The picture that emerges for Uzbekistan is rather unusual. In particular, the relatively high levels of productivity in agriculture (although falling) stand out. By contrast, the productivity levels in the construction sector and in trades, although increasing, appear very low.

A comparison of sector variations in the levels of productivity with sector variations in wage levels reveal a somewhat unclear relationship. While higher than average levels of productivity in industry is also reflected in higher wages, wages



in construction in particular, but also in trade, appear much higher than productivity levels would lead one to expect.

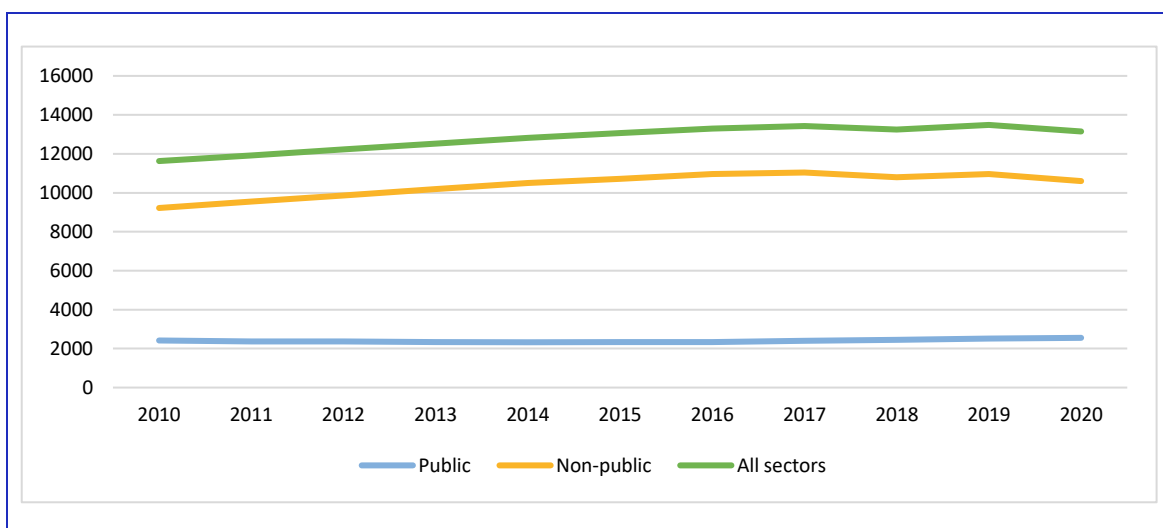
The very low levels of productivity in other activities, much of which are education, health and other public sector services, is noteworthy. It can also be induced from the figures that wages in “other activities” tend to be well below average.

As agriculture is primarily pursued as own account employment, wage data for agriculture were not available.

### 3.1 The development of the private sector and informality

The most dramatic changes on the Uzbek labour market over the past decade have arguably not been changes across sectors, but the growth of the non-corporate sector and the diminishing role for employment of the state-controlled sectors of the economy (Figure 3.6). Since 2005 the private sector has accounted for the entire employment growth in Uzbekistan, while employment in the public sector has stagnated.<sup>30</sup> As a consequence, the share of the non-corporate sector in total employment has increased from 50 per cent in 2005 to 81 per cent in 2019. Looking ahead this trend seems likely to accelerate in the coming years as large numbers of often inefficient state enterprises are privatized and restructured.

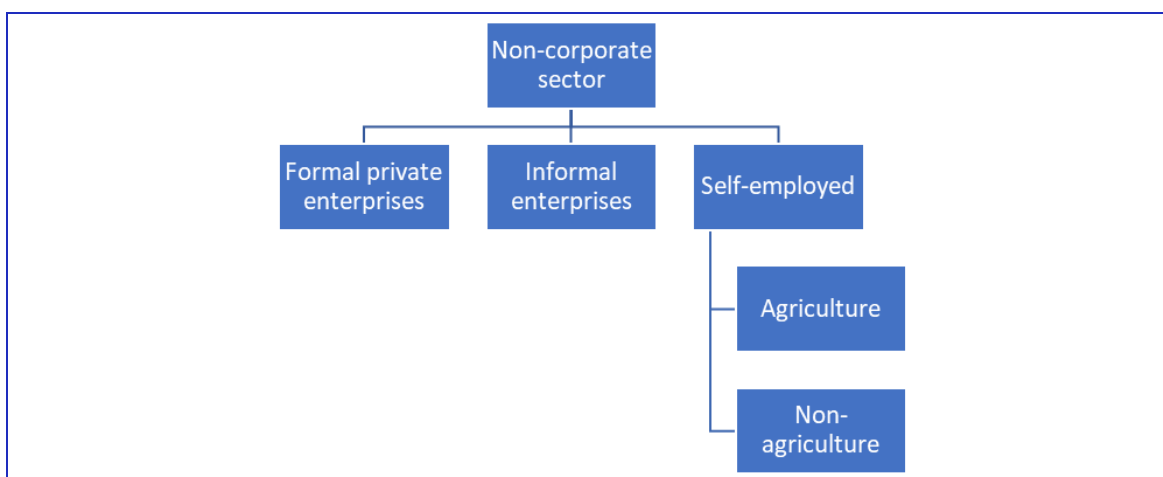
Figure 3.6 Development of employment in the corporate and non-corporate sectors 2005-2018. Thousands.



Source: [www.stat.uz](http://www.stat.uz).

<sup>30</sup> Also referred to as corporate and non-corporate sector.

Figure 3.7 The non-corporate /private sector and informality



The non-corporate / private sector and informality are not the same, but they overlap (Figure 3.7). Both concepts serve as catch-all for everything that is not corporate or informal. They are therefore highly diverse and need to be unpacked before they can be analysed in a meaningful manner. This graph offers one simple way of unpacking the corporate sector.

The way informality is defined is important. Current Uzbek legislation defines informal employment as “persons in employment who are not registered with tax authorities, including:

- Members of Dehqan farms who do not pay state social insurance contributions
- Self-employed persons practicing unregistered business activities
- Persons employed by entrepreneurs and individuals in conditions of informal employment that do not pay state social insurance contributions.”

ILO defines informality slightly differently. According to this definition employed persons, that is all those working for wages, as own-account worker or as contributing family worker, are considered to hold an informal job if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (e.g., paid annual and sick leave).

A distinction is made between informal enterprises and informal employment. Employment in informal enterprises is typically all informal, but employment in formal enterprises can be both formal and informal.

ILO recommendation 2015/204 *Transition from the informal to the informal economy* provides guidance on how to address informality and promote formal employment.

	Entrepreneurial opportunity driven	Subsistence & distress employment
Agriculture	Market-orientated family farms providing productive employment	Subsistence farming
Non-agriculture	Profit and opportunity driven private enterprises or self-employment	Low productivity distress activities

Informality in the non-agricultural sectors can be divided into two categories.

1. Profit and opportunity driven private enterprises or self-employment, which for various reasons have opted to remain informal. The goal should be to formalise these enterprises by creating incentives to do so (ILO Recommendation 204). Such incentives could include
  - Reduce time and costs of business registration
  - Simplify tax and contributions assessments and payments, reduce tax burden on SMEs
  - Promote access to public procurement for SMEs
  - Improve access to financial services and credit
  - Entrepreneurship training and start and run your own business support
  - Improve access to social security coverage
2. Low productivity distress activities. These are activities that people take up because they cannot find any other way of making a living, for instance street vendors. These activities typically offer no future and alternative more productive jobs need to be created for those employed in this type of informal jobs.

A distinction should be made between informal employment in agriculture and in the non-agricultural sectors. In most

countries, including Uzbekistan, most agricultural employment is in the form of self-employment<sup>31</sup> on family farms. Such employment is typically counted as informal, as it does not meet all the requirements of formal employment. However, it differs in several respects from informality in the non-agricultural sectors, as do the policy instruments for formalizing employment on one's own farm.

## 3.2 Summary conclusions

- High rates of economic growth combined with modest labour force growth have resulted in rapid growth of productivity, also in agriculture.
- While there has been some structural change of the economy from agriculture as well as from services to industry, there has been very little change in the sector composition of employment.
- Productivity growth has mainly been within sectors. Structural change, shifting labour and production from low-productivity to high-productivity sectors does not appear to have been a major source of economic growth.
- However, there are reasons to believe that there are large differences in capital- and labour intensity between the corporate and the non-corporate sector.
- The main structural change has not been between sectors but from the corporate to the non-corporate sectors.
- Some 500 thousand new productive jobs will need to be created yearly between 2019 and 2030, representing almost twice the rate of increase during the 2010-2019 period, as a consequence of an increase in the retirement age and in order to bring down unemployment. In addition, the yearly reduction of working poor will need to increase from 57 to 140 thousand.
- While it may be possible to increase the rate of economic growth further, the nature of economic growth will need to change.

The growth of the non-corporate sector together with the stagnation of the state-controlled corporate sector has resulted in an increasingly dual economy and labour market.

1. The corporate sector is highly capital-intensive, yet largely inefficient. Employment is largely formal, enjoying the benefits and security prescribed by law. However, the sector creates no new jobs.
2. The non-corporate sector is dynamic and main source of job creation. Yet, much of it is still informal. Employment often falls outside the coverage of labour laws and protection and working conditions are likely to vary greatly.

### Looking forward, a number of challenges can be clearly identified:

The employment elasticity of growth needs to increase in most (non-agricultural) sectors. In other words, economic growth must become more job-rich. Structural change, that is shifting labour from low-productivity and obsolete sectors to sectors with good potential for both employment and productivity growth, has so far been slow in Uzbekistan and needs to be more forcefully promoted.

A main challenge will be to reverse the trend towards a dual economy and to create a unified, integrated economy and labour market out of the two – public and private – parts of the economy. This will require:

- Support to growing non-corporate sector through the creation of an enabling and supporting environment. Enable and support SME development (cut red tape, access finance, active support to set up and run your own business etc.)
- Promotion of the formalization of the non-corporate sector and to ensure that the jobs created are productive and meets the standards of decent work.
- Reform of the corporate sector with a view to modernize it and make it more efficient. Past policies to promote capital-intensive industry with little direct job creation potential including large electricity and fuel subsidies should be discontinued. Reforms should aim at making the corporate sector both more competitive and more labour-intensive and productivity growth should be achieved through technological upgrading and more efficient modes of operation rather than through massive capital investments and/or subsidies.
- Active labour market policies to increase employability and labour mobility

While it would go beyond the scope of the present study to explore in the need for measures to improve the business climate, the result of a survey of large and small firms in Uzbekistan, shown below, provides a good indication. Reducing the tax burden and the introduction of free convertibility for import of inputs rank high both for small and large firms. Noted as major constraints by firms large and small, issues surrounding the availability of foreign exchange as well as tax reforms have now been addressed by Government. VAT rates have been reduced from 20 to 15 per cent, for example. And a flat personal income tax rate of 12 per cent now prevails. Problems with uninterrupted supply of electricity and other public utilities and access to land were also pointed out as serious problems for small firms, while large firms

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<sup>31</sup> As own account workers or contributing family members.

prioritized subsidies and preferential prices on energy. The latter should perhaps not be taken as seriously, as it indicates a desire for preferential treatment rather than an improved business climate for all.

**Table 3.2 Externally imposed constraints on productivity growth. Prioritisations of desired measures by large and small firms.**

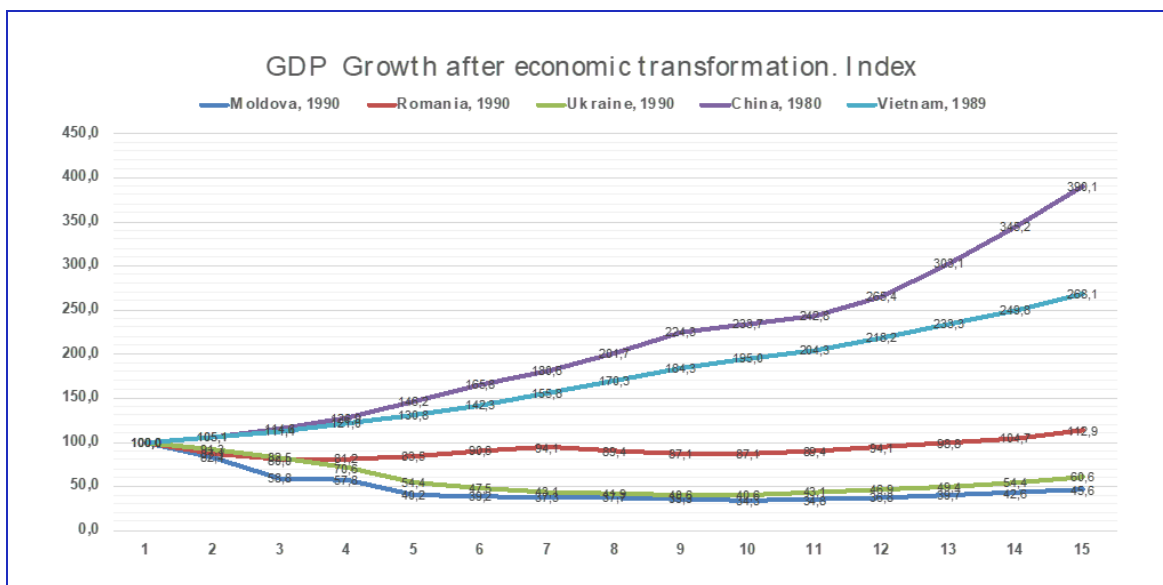
Constraint	Large firms	Small firms
Introduce free convertibility for import of inputs	1	2
Reduce excessive tax burdens, tax rates	2	1
Give more bank loans in local currency in demanded amounts	3	8
Ensure uninterrupted supplies of electricity, natural gas, fuel and water	10	3
Provide additional territory to expand production capacities	9	4
Provide preferential prices and stop increasing prices on electricity, gas, and fuel	5	9
Reduce interest rates on bank loans in national currency	7	7
Reduce import duties for import of machinery and raw materials	11	5
Give subsidies on capital rehabilitation, machinery, and new technologies	4	12

All of the above should be seen in the context of the profound economic transformation towards an open market economy that Uzbekistan has embarked upon. Experience from other countries in the region and elsewhere that have undergone similar transformations show that this transformation will have profound consequences on employment and the labour market.

On the one hand experience shows that reform and privatisation of state enterprises has resulted in displacement of labour, although magnitude has varied. A survey of manufacturing firms in Uzbekistan in 2014 -16 showed that labour productivity was more than twice as high in small firms compared to large, mainly state-owned, firms.<sup>32</sup> On the other hand new opportunities for creating productive jobs develop and must be supported. Indeed, as can already be seen in Uzbekistan, SMEs become a main source of new jobs, often in new sectors.

<sup>32</sup> World Bank (2019).

**Figure 3.8 GDP growth after launch of economic transformation in five former socialist countries. Index: Year of launch of economic transformation = 100.**



Note: The starting points were the collapse of the socialist system in Moldova, Romania and Ukraine in 1990, the decollectivisation of agriculture and liberalisation of rural economy in China 1980, and the transition to a market economy in Vietnam in 1989.

Source: UN National Accounts.

Figure 3.8 shows the development of GDP during the first fifteen years after the beginning of a major transformation. The comparison is obviously not entirely fair because Moldova and Ukraine also faced the double shock of the collapse of the Soviet Union and the collapse of the socialist economic system. But in all countries major crisis triggered the economic transformation. As can be seen the outcomes in terms of economic development vary greatly. While the transformation unleashed periods of rapid economic transformation and growth in China and Vietnam, Moldova, Romania and Ukraine suffered massive economic destruction followed by painfully slow reconstruction.

We do not have comparable employment data for all the years and countries, but by and large employment and income followed the pattern of the GDP. There was a drastic decline in employment in Moldova and Ukraine, a more modest decline in Romania, while household incomes from employment increased very rapidly in both China and Vietnam after the introduction of the reforms.

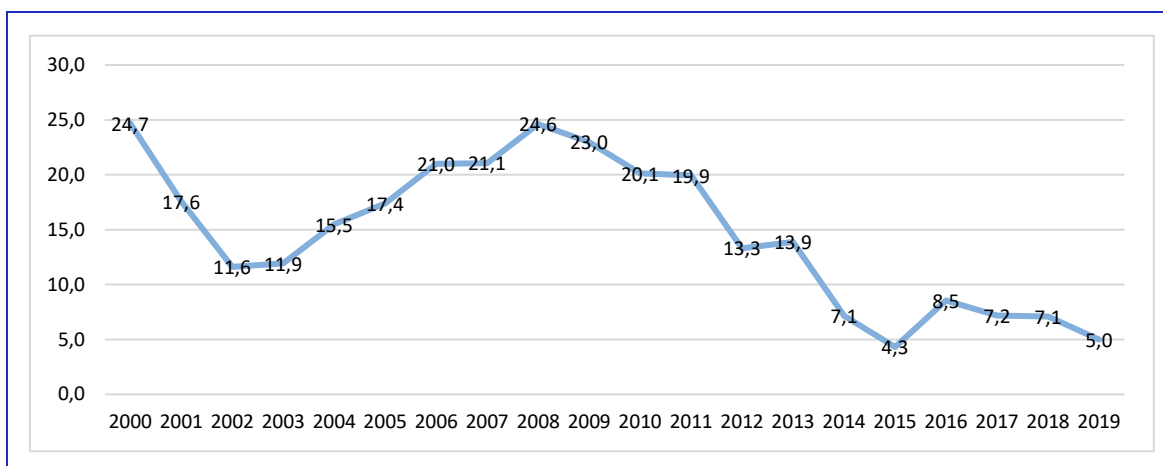
One major difference was the sequencing of the reforms and the manner in which they were carried out. In short, in China and Vietnam the reforms began with decollectivisation of agriculture and promotion of rural private enterprises. Economic liberalization thereafter spread also to the urban economy and the countries experienced a general liberalization of their domestic markets. Only thereafter, and with some time lag, were their economies opened up to external competition through a liberalization of foreign trade. The reforms were gradual and carried out over a period of several years. Hence, China and Vietnam gave rural areas a head start and allowed infant industries and a new institutional framework for a market economy to develop before they exposed the economies to external competition.



## The Geographic Dimensions of Achieving Full and Productive Jobs for All

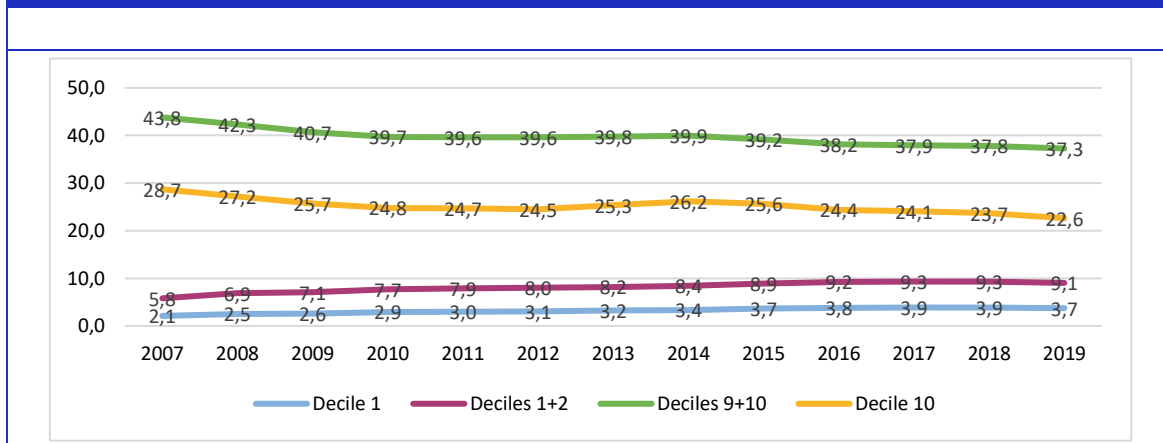
The population in Uzbekistan has seen remarkable increase in personal incomes over the past two decades (Figure 4.1), resulting in improved living standards and falling poverty. Since 2011<sup>33</sup> the rate of growth of personal income has fallen from an exceptionally level to a still respectable 5 – 7 per cent since 2015.

Figure 4.1 Real growth in per capita personal income. 2000 – 2019. Per cent.



Note: Figures refer to cash income only until 2010. From 2011 onward they refer to total income. From 2015 revised data  
Source: [www.stat.uz](http://www.stat.uz)

Figure 4.2 Shares of total per capita income of bottom and top income deciles. Per cent



Source: [www.stat.uz](http://www.stat.uz).

The rapid rise in household income has been all the more impressive as it was, at least initially, accompanied by reduced income inequality (Figure 4.2). In 2007 only 2.1 per cent of the total household income accrued to the poorest decile, ten years later this share had increased to 3.9 per cent. Over the same period the income share of the richest decile of households fell from 43.8 to 37.9 per cent. In other words, economic growth was both rapid and pro-poor. However, in recent years the trend of falling income inequality would appear to have slowed significantly, at the same time as overall economic and personal income growth also have slowed down.

While it is beyond the scope of the present study to analyse the structural changes that made possible the very rapid growth in household income and reduced income inequality in the past, it is a reasonable assumption that it to some extent have been linked to increases in rural incomes and incomes from agriculture.

Looking ahead, revitalizing the past trend of rapid pro-poor growth will need to address the challenge of geographic imbalances between where productive jobs are created and where the need for more productive jobs is greatest. Full and productive employment can only be achieved if the supply of productive jobs matches the demand not only at the aggregate national level, but also at the regional and local level.

<sup>33</sup> The period for which comparable data are available.

Geographic imbalances in the demand for and availability of productive jobs can be solved in two ways:

- Labour can move to where the jobs are, or
- The jobs can be created where there is a need for jobs.

In practice both of these two mechanisms are important.

**Table 4.1 Household incomes by region by main sources. Percentages.**

	Income/capita	Employment		Transfers	
	1,000 som	Wages	Self-employment	Remittances	Public
Karakalpakstan	3,348.9	34.7	30.7	14.9	14.8
Namangan	3,437.4	23.6	44.7	16.0	11.6
Fergana	3,657.4	26.7	43.0	14.2	12.1
Jizzakh	3,767.5	26.7	53.1	6.6	10.2
Kahkadarya	3,924.3	25.3	46.4	14.2	10.5
Syrdarya	4,058.4	30.6	43.5	10.2	12.1
Samarkand	4,083.7	20.2	45.8	19.5	10.6
Surkhandarya	4,104.3	n.d.	n.d.	16.1	9.7
Andijan	4,228.1	23.0	46.4	18.2	9.9
Korezm	4,643.9	21.0	43.4	20.9	9.5
Tashkent	4,791.9	33.4	45.6	5.4	11.3
Bukhara	5,682.8	21.9	49.5	15.9	9.3
Navoiy	7,037.4	41.2	41.4	4.8	9.5
Tashkent city	9,276.8	43.3	15.8	14.1	9.2
UZBEKISTAN	4,600.0	28.5	40.9	14.3	58.4

Source: Sample Household Survey January – June 2019, [www.stat.uz](http://www.stat.uz)

There are very large regional differences in per capita income across regions in Uzbekistan (Table 4.1). The per capita income in Tashkent City is more than twice the national average and almost three times that of the poorest provinces. These large regional differences point to large geographic imbalances between the availability of productive jobs and the need for such jobs; the good jobs and those in need of these jobs are far from always in the same place. The consequence is severe geographic inequalities in access to productive jobs and decent work. Clearly, policies aimed at reducing the number of working poor and poverty need to take the regional dimensions into account.

A higher share of wage income in total income is usually associated with a higher overall income, e.g., Tashkent City and Navoiy. However, there are exceptions to this rule, e.g., Karakalpakstan, suggesting that wage employment may not always provide an escape from income poverty.

In the absence of productive jobs at home, many households opt to send one or several, usually male, household members abroad in search of work and to obtain the means of living that cannot be obtained at home. The tendency to migrate for work abroad is highest in poor rural areas, where jobs are most scarce. It is also most common among the poorest households. A recent study found that 26 per cent of the poorest quintile of households received remittances, compared to 14 per cent of the richest households. Remittances were found to make up 42 per cent of the income of the poorest households, with at least one migrant household member.<sup>34</sup>

<sup>34</sup> William Seitz. 2019. *International Migration and Household Well-Being: Evidence from Uzbekistan*. Policy Research Working Paper 8910 (Washington D.C.: The World Bank).

## 4.1 Moving labour to jobs

One of the causes behind the large regional differences in household earnings and, in particular, in household earnings from domestic employment is clearly a very low level of geographic mobility within Uzbekistan, which international comparisons suggest is much lower than in most other countries.<sup>35</sup>

Uzbekistan has experienced rapid urbanization during some periods in the past. The share of the total population living in urban areas increased from 37.4 per cent in 2000 to 51.5 per cent in 2010, as the urban population increased by 4.6 per cent per year. However, since 2010 urbanization appears to have come to a halt. Between 2010 and 2019 the urban population grew by a mere 1.9 per cent per year, that is at an even slightly lower rate than that of the total population in the country, and as a consequence the share of population living in urban areas fell slightly from 51.5 to 50.5 per cent.<sup>36</sup> The slow-down in urban growth is worrisome as urbanization is strongly associated with economic transformation and structural change, which in their turn form the basis for economic development. The slow-down of urbanization to a standstill in the past decade can be seen as a twin phenomenon of the virtual lack of mobility of labour across economic sectors, discussed earlier.

There can be many reasons behind the very low geographic mobility of labour and the stagnation of urbanization at a still low level. The *propiska* system that dates back to the times of the Soviet Union and which aims to manage and control internal migration, in particular to the capital city, Tashkent, is often put forward as a barrier to mobility. However, it should be noted that this system is not new, but also existed during the earlier period of rapid urbanization, and it is not obvious that it serves as an effective deterrent today. An important constraint on rural – urban migration is likely to be a poorly functioning housing and rental market and the very high costs of housing in Tashkent and other major cities. Some 95 per cent of Uzbeks own their own residences and the market and the rental market is limited. In big cities the demand for housing exceeds the supply. The cost of housing is manifold higher in Tashkent than in the provinces not only in absolute terms, but also as relative to household incomes. Lastly, it is quite possible that attractive jobs have become in increasingly short supply in the big cities, while the risk of unemployment has increased.

The Government is clearly aware of the need for further urbanization and a Presidential decree from 2019 calls for increasing the rate of urbanization to 60 per cent by 2030, the decade in which Uzbekistan has the aspiration of becoming an upper middle-income country. The *propiska* system is also under review and is being loosened up, if not abolished altogether. This is very much in line with popular demand. Surveys undertaken under the World Bank Listening to the Citizens of Uzbekistan project show that around 85 per cent of the population believe that citizens should be allowed to move to wherever they want.

These popular sentiments and measures also make economic sense. Theory concludes that constraints on labour mobility result in inefficiencies at the macro level, impeding the most productive unions of labour and capital, separating available capital from available labour, and constituting a constraint on economic growth. Lack of geographic mobility also serves to increase income gaps between rural and urban areas and across regions.

The arguments for continued urbanization are also compelling.

- Cities bring «agglomeration» economies where production, service, and labour inputs are all in close proximity, expanding choices, decreasing costs and, more generally, decreasing the transaction costs of doing business
- Cities benefit from a denser and more extensive network of physical infrastructure, reducing external constraints on productivity growth
- The 19th century economist noted that in cities «ideas are in the air», a positive spillover or externality that may enhance innovation
- And the above observations are based on extensive empirical support: no country has grown wealthy without substantial geographical shifts to urban environments within the country.

## 4.2 Creating jobs where they are needed

The pattern of urbanization matters. A balanced growth of both large, medium-sized and small towns is preferable to a concentration of urbanization and jobs to a few big cities.

Many former socialist experienced a concentration of economic development and jobs to a few large cities after a transformation to a market economy, while small- and medium-sized towns and the countryside as a whole suffered economic decline and increasing unemployment followed by stagnation at very low levels of economic development. As productive jobs are lost without being replaced by any new jobs, unemployment, underemployment and working poverty

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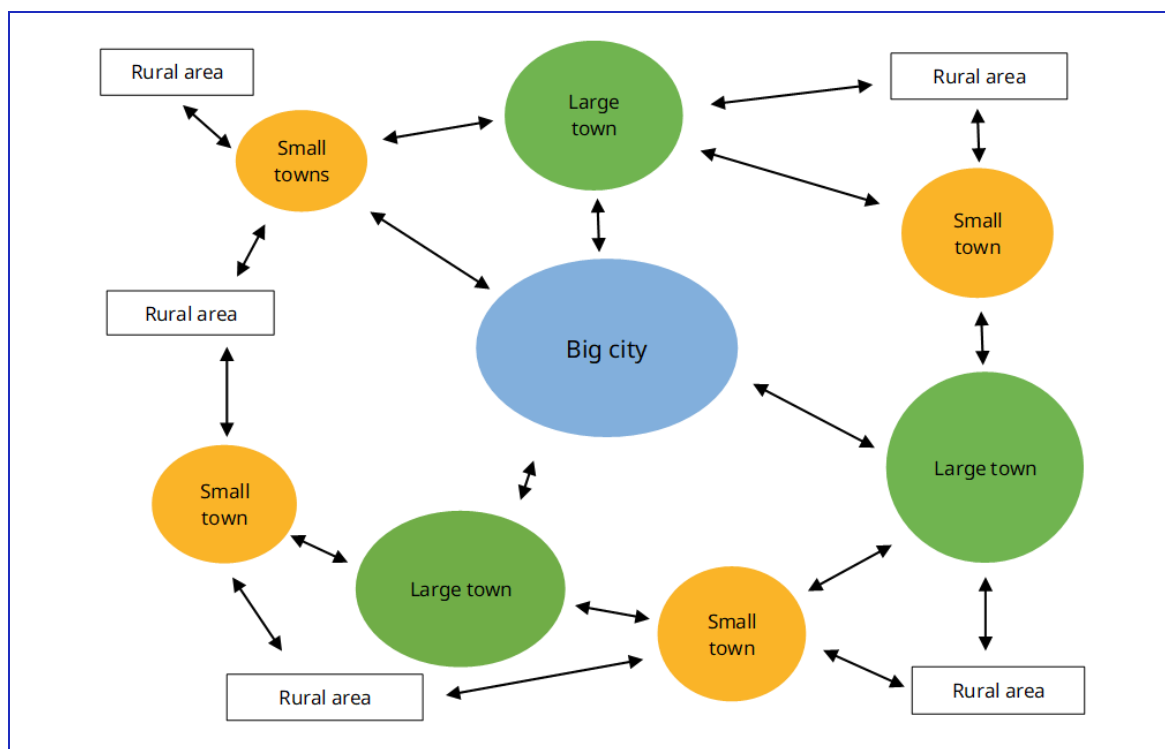
<sup>35</sup> See United Nations Department of Economic and Social Affairs (UN-DESA). 2013. "Cross-national comparisons of internal migration: An update on global patterns and trends." Technical Paper 2013/1. UN-DESA, Population Division (New York) and Listening to the Citizens of Uzbekistan. (Washington D.C.: World Bank) <https://www.worldbank.org/en/country/uzbekistan/brief/l2cu#1>

<sup>36</sup> [www.stat.uz](http://www.stat.uz)



becomes widespread.

Figure 4.3 Economic linkages between rural and towns and between towns and cities



Socialist agriculture had few links to the local economy. Inputs were procured centrally, and the produce was delivered to “the centre”. Similarly, non-agricultural enterprises had mainly vertical linkages and few local horizontal linkages.

As the market economy replaces the planned state-controlled economy and as large state farms are replaced by small private farms and as SMEs become increasingly importance the structure of economic linkages needs to dramatically change. Experience shows that this does not always happen by itself.

The creation of a diversified and integrated economy through the creation of linkages between different sectors in the economy and of strong value added chains need to be complemented by a geographic integration of the economy.

Rural areas need to be linked to markets in small towns where farmers can sell their produce and by the inputs and other goods they need. These small market towns in their turn depend on the development of agriculture and the rural economy to prosper.

These small towns in their turn needs to be linked to other. A strong and well-functioning network of towns and cities needs to be created that makes it easy to trade between different towns and parts of the province and which makes it possible for all parts of the province to become integrated parts of the provincial economy and to contribute to its development.

In the absence of such a development and geographic market integration there is a real risk of a bi-polar development. Economic development becomes confined to a few large urban centres, while the rest of the country stagnates economically. E.g., Moldova, Armenia, Tajikistan. Indeed, the main battle to preserve and to create productive jobs will probably take place outside the big cities.

**Regional and local development does not take place without support.** From the perspective of an individual economic actor or firm the presence of a dynamic and fairly large and sophisticated economic environment, with a multitude of different economic actors, is essential for its own possibilities to prosper. In economic terms this has to do with positive agglomeration effects, positive externalities and the possibility of reducing transaction costs for the individual firm, which depends on the ease with which an economic actor can interact with other economic actors, access information (about markets, technology etc.), market its products and services, obtain support services etc. In other words, a low level of local economic activity is in itself an obstacle to local economic development, which creates a vicious circle that needs to be broken.

While this economic fabric – or overall environment of economic agents – is developing rapidly in Tashkent and a few other big cities, this is not the case in other parts of the country. Thus, the rapid development and increasing sophistication of the economy of Tashkent and other big cities is in itself creating an enabling environment for further economic development, in sharp contrast to the situation elsewhere in the country. While growth may eventually spread also to other parts of the country, this may prove to be a very slow process, not least in view of the historic absence of

inter-urban and rural-urban economic linkages

Pro-active efforts to promote local economic growth –for instance through fostering of growth centres – and to promote spatial economic integration are therefore required.

**Local and regional development strategies can be effective.** There is by now a wealth of empirical experiences of local and regional development. While there have been many less successful cases, success stories tend to have some features in common.

**Competition does not exclude cooperation.** Local firms that aim to expand and serve markets outside the local one do not necessarily compete with each other, but rather with firms elsewhere. Through cooperation in fields such as marketing, technological upgrading, exchange of advice and information and through sub-contracting arrangements, some of the disadvantage of smallness and remoteness can be overcome.

**Local governments and institutions should take an active role in supporting local firms.** The absence of diversified and well-functioning markets implies that many services and functions normally provided by the market will have to be provided in an organised manner through a more or less formal collaboration between key local institutions, including local governments. The services that need to be provided can vary greatly, ranging from marketing and market research to assistance with co-operative sales initiatives, to provision of technological know-how and quality control. They often include activities aimed at compensating for poorly functioning financial and labour market, such as facilitation of access to credit and provision of vocational training.

Local governments and representatives of business and the financial sector, trade unions, political and non-governmental organisations – should form more or less formal policy networks aimed at finding solutions to common problems and concerns.

Another key factor for success would seem to be a **decentralised system of governance** where local governments enjoy a high degree of autonomy. Only local authorities possess the detailed knowledge of the local economy and of the various local actors and stakeholders and have the permanent local presence needed to effectively provide collective services and promote the development of the local economy. However, they need sufficient fiscal means and policy space to play a strong and active role.

In order for regional development strategies and programmes to succeed, there should be **strong local ownership and control**. The local stakeholders must, jointly, be in the driving seat when it comes to identification of the challenges and problems and the design and implementation of strategies, programmes and activities. Government and institutions at the national level can play an important role, but primarily in a supporting and advisory capacity and as a financier of major investments in infrastructure.



## Labour Market Institutions and Intermediation

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### 5.1 Labour Market Regulation

As to labour market regulation, two criteria make economic and social sense. First, enterprises require a conducive business climate to operate efficiently in a dynamic market economy. Second, workers require rules that protect against arbitrary behaviour as well as degree of employment security, stability, and social protection if the labour market is to function fairly and efficiently. Both these principles make good sense at both the macro- and microeconomic levels. Both make social and economic sense at one and the same time: hiring a young person into a good job is an economic gain for the enterprise and the worker, as well as a social gain for the worker and his or her family, as also for society as a whole as it seeks to lower poverty and unemployment and increase economic output.

There is nothing contradictory in these twin objectives. It is a question of striking the right balance between them, which is why their formulation is most efficiently done through tripartite participation at the drafting stage, while taking into account relevant international labour standards. The end result ought to be a set of rules to which all can subscribe. And when that happens, predictability is enhanced, and it is such predictability upon which investors, rely. In its Job Study of 2013, World Bank cautions against excessively rigid labour markets as well as excessively unregulated labour markets. It proposes the concept of a “regulatory plateau” which implies some diversity of regulatory models when one is on the plateau, but a price to be paid when one slips off the plateau at either the over- or under-regulated end.

Seeking the right balance is a matter of trade-offs. Thus, if employers would like to see greater ease, i.e., “flexibility” in hiring and firing rules, then this would have to be in return for greater protection of those affected through notification, severance payments, education and training and job assistance. One cannot work without the other: workers easily dismissed without these protections become a macroeconomic cost to the State, relative to its poverty (and working poor), unemployment, and informality objectives -- as well as aggregate demand objectives, recalling that consumption is typically a major if not the major component of a country’s aggregate demand.

Enterprise surveys undertaken by the World Bank and the World Economic Forum consistently find that employers rarely rank labour market regulation as a major constraint in their business operations. If labour emerges as an important concern at all, it is overwhelmingly a matter of labour quality or work discipline that matter. For most countries in the world, labour market regulation seems to find itself on that “regulatory plateau”.

Some countries, mindful of increasing their rank in the influential Doing Business Report, published by the World Bank Group, have veered toward adjusting their labour laws towards making these more flexible alone. For example, with non-wage labour costs set at zero in Georgia, that country’s record on poverty and unemployment reduction is nonetheless far worse than that of Uzbekistan. The foregoing paragraphs make plain that a supposed correlation between labour market deregulation and employment growth or investment attractiveness does not appear to prevail. This is one reason why the Doing Business Report removed its variable on “Employing Labour” from the Report’s overall ranking some years ago.

### 5.2 Temporary agency work and other multi-party employment relationships

**“Multi-party employment relationships”** apply to situations where workers are not directly employed by the company to which they provide their services. Contractual arrangements involving multiple parties happen when a worker is deployed and paid by a temporary work agency, but the work is performed for a user firm. Outsourcing and subcontracting modalities involve a multi-party agreement as well. Although there is no direct employment relationship between these workers and the user firm, certain countries are imposing legal obligations on the user firm, especially protecting workers’ health and safety.

The issue of “outstaffing” is high on the agenda of labour policy debate, not only in Uzbekistan but in many countries in the world today. There are issues raised by the practice: first, what happens to the wages and working conditions of the outstaffed worker – as well as his or her employment security (e.g., from indefinite to fixed-term employment?), and status in employment (e.g. from “employee” to “self-employed”?) what, first, are the issues surrounding outstaffing? ILO notes that:

**“Ensuring equality of treatment for workers in non-standard forms of employment is important not only to avoid discrimination based on occupational status and as a matter of fairness, but also as a way of ensuring that non-standard employment arrangements are not used solely to lower labour costs by offering worse terms and conditions to particular groups of workers.”**

There is no specific International Labour Standard on outstaffing although the Convention on the Termination of Employment (No. 158) does address the appropriate use of fixed-term contracts relative to a contract of indeterminate duration. The accompanying Termination of Employment Recommendation, 1982 (No. 166) gives examples of legal rules

that may be used to prevent abusive recourse to fixed-term contracts. It may be done by:

1. limiting recourse to contracts for a specified period of time to cases in which, owing either to the nature of the work or to the circumstances under which it is to be done or to the interests of the worker, the employment relationship cannot be of indeterminate duration;
2. deeming contracts for a specified period of time, to be contracts of employment of indeterminate duration; and
3. deeming contracts for a specified period of time, when renewed on one or more occasions, to be contracts of employment of indeterminate duration.<sup>37</sup>

ILO recommendation (No. 198) on the employment relationship and also the ILO report on *Non-standard employment around the world: Understanding challenges, shaping prospects* (ILO Geneva, 2016)

ILO and EU standards also require that workers on fixed-term contracts should not suffer discrimination with regard to basic working and employment conditions in comparison with 'regular' employees.<sup>38</sup>

Instituting employment and social policies to manage social risks and accommodate transitions. The fourth set of recommendations concerns instituting employment and social policies that can help workers to manage risks and better accommodate transitions in their working lives. Besides unemployment, workers face other risks of loss of income as a result of changes in individual earnings capacity due to care responsibilities or eroding skills. There is thus a need to develop policies to help mitigate these risks and to facilitate workers' transitions in the labour market throughout their working lives.

In this sense, it is clear that the international policy consensus is that States may provide for recourse to fixed term contracts, but that they should establish policies and clear regulatory frameworks to guide their use.

For instance, in its comments on the draft Labour Code, the Office recommended that the Government consider reducing the maximum duration of fixed term contracts to two years. This proposal sought to ensure that fixed term contracts are only used in situations where the nature of the work to be performed was not permanent.

### 5.3 Minimum wages, employment and poverty

There is an influential view that minimum wages undermine employment opportunities, especially for vulnerable groups in the labour market, and discourages foreign direct investment (FDI). Yet, the credibility of such views has not been tested by a systematic review of the evidence. A recent meta-analysis of the minimum wage-employment nexus in emerging economies offers a nuanced conclusion.<sup>39</sup> To start with, consider figure 22 which shows the minimum wage as a proportion of the average wage in a diversified sample of 14 emerging economies. The minimum wage/average wage ratio – the so-called 'Kaitz index' – for the sample of emerging economies is 0.47 vis-à-vis Uzbekistan which is 0.38.<sup>40</sup> The employment rates are roughly equal. Thus, the lower Kaitz index in Uzbekistan is not associated with a better employment rate.

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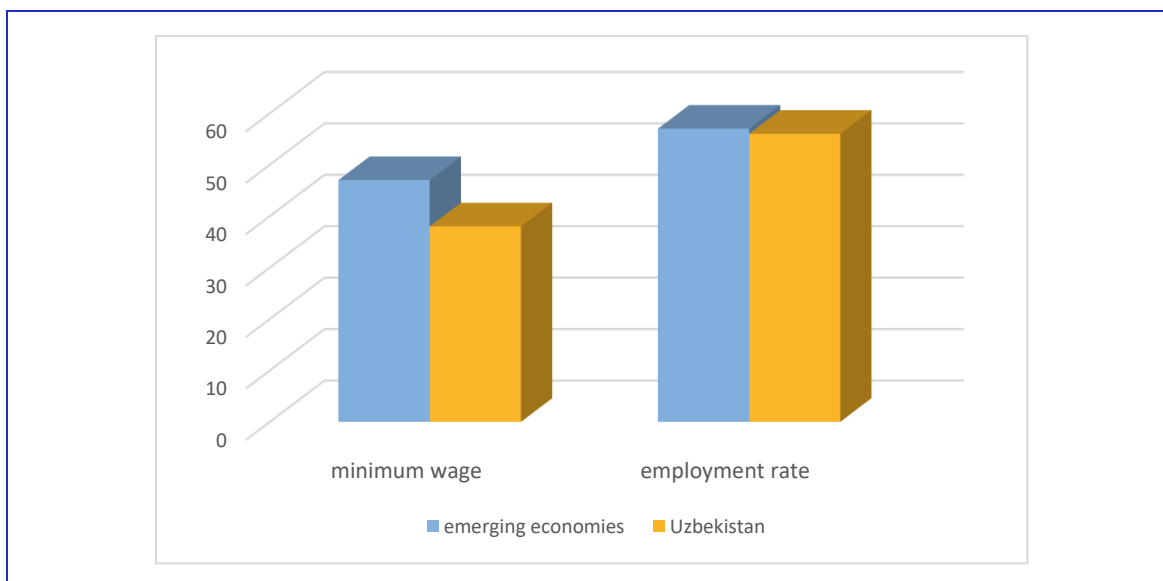
<sup>37</sup> Paragraph 3(2).

<sup>38</sup> For instance, Article 5(1) of the Temporary Agency Work Directive reads that "The basic working and employment conditions of temporary agency workers shall be, for the duration of their assignment at a user undertaking, at least those that would apply if they had been recruited directly by that undertaking to occupy the same job", Directive 2008/104/EC of 19 November 2008.

<sup>39</sup> Stijn Broecke, Alessia Forti & Marieke Vandeweyer (2017) 'The effect of minimum wages on employment in emerging economies: a survey and meta-analysis', *Oxford Development Studies*, 45:3, 366-391.

<sup>40</sup> The countries in question are Argentina, Brazil, Chile, Colombia, India, Indonesia, Mexico, Poland, Philippines, Russian Federation, South Africa, Thailand and Turkey

Figure 5.1 Labour Market Regulation



Source: Stijn Broecke, Alessia Forti & Marieke Vandeweyer (2017) 'The effect of minimum wages on employment in emerging economies: a survey and meta-analysis', *Oxford Development Studies*, 45:3, 366-391

A rigorous meta-analysis shows that minimum wages have had little detectable impact on employment. While more vulnerable groups appear to be more adversely affected by minimum wage rises, the effects tend to be small on average. The study also points out that many empirical investigations in this field suffer from a 'negative reporting bias', that is, there is a tendency to report negative results (minimum wages reduce employment). In any case, at least 70% of the estimates that were reviewed were statistically insignificant.

It is worth noting that the results of this meta-analysis are in line with the findings of World Development Report 2013<sup>41</sup> which pointed out that '...most estimates of the impacts of (labour regulations) on employment levels tend to be insignificant or modest'.<sup>42</sup> Even if there is a modest and negative impact of minimum wages on employment, this can be offset by the fact that minimum wages can alleviate the incidence of low pay and thus reduce working poverty.

An evaluation by the European Commission (EC) of 14 OECD countries makes the following optimistic assessment: The evidence suggests that a well-managed minimum wage policy through statutory minimum rates or collectively bargained wage floors can be effective at improving the wages of low paid workers without negative effects on employment rates.

Of course, minimum wage policy needs to be combined with complementary measures, such as education and skills policies and active labour market programmes, to tackle the problem of low-wage employment. Nevertheless, the EC evaluation, combined with the meta- analysis of the minimum wage-employment nexus in emerging economies are highly relevant to the case of Uzbekistan which has a significant incidence of low pay and working poverty. A reduction in working poverty, while desirable, can also boost aggregate demand by enlarging the size of the domestic market and become a new source of job creation.

One could still argue that minimum wages in general are problematic for a country like Uzbekistan that is seeking to increase FDI which has languished in recent years. High minimum wages might deter FDI which usually is motivated – so goes the argument – by the incentive to locate in low-wage labour markets. The problem with this line of reasoning is that it is incompatible with the predominant finding in the academic literature that FDI creates a 'wage premium', that is, affiliates of multinational companies pay significantly higher wages than their domestic counterparts, while boosting both employment and productivity. Thus, it is unlikely that foreign firms would be deterred by minimum wage legislation.

Discussions with Uzbek union representatives suggest that they are keen to ensure that minimum wages are aligned with 'living wages'. They can seek inspiration from the fact that, in recent years, concerns about 'living wages' have indeed led to a renewed momentum to raise minimum wages substantially in a number of OECD countries. South Korea is a notable example in which minimum wages are now projected to increase to 70% of median wages by 2021. The available evidence does not suggest any significant impact on either the employment rate – which stands at 69% - or the unemployment rate – which stands at 3.7%.<sup>43</sup> In sum, international experience suggest that minimum wages can

<sup>41</sup> World Bank 2012. *World Development Report 2013: Jobs*. p. 261

<sup>42</sup> Ibid.

<sup>43</sup> As reported in ILOSTAT 'Country Profiles'. The numbers are for 2017.

play a significant role in reducing working poverty without having any significant impact on employment. Uzbekistan, with a 'Kaitz index' of 38%, has scope to increase minimum wages gradually by about 10 percentage points which will bring it in line with norms prevailing in a diversified sample of emerging economies. This gradual increase is unlikely to deter either FDI or employment opportunities on a significant scale.

## 5.4 The Public Employment Service

This section benefits from a recent, comprehensive review of Uzbekistan's State Employment Service (SES), including extensive interviews with stakeholders in the country. The present chapter seeks to highlight just a few major findings of that study.

In any economy, there are numerous ways, formal or informal, in which the link between supply and demand, or job-matching, occurs. In most countries, that link is through the Public Employment Service, notwithstanding the growth of numerous private job-matching services. In Uzbekistan, this is through the Public Employment Service under the auspices of the State Employment Service.

This institution is national and well established in Uzbekistan, both centrally and down through the district and mahalla levels. Indeed, the SES oversees the operation of 14 employment centres at the regional level and 203 District Employment Centres. At the present juncture of structural change in the labour market arising from both the emergence of a private market-led pattern of growth and the digitization of technologies, the SES is both faced with challenges and is addressing them.

Among the challenges are the following:

- Registration in the PES remains predominantly an administrative task for job referral rather than a more "granular" or more individualized service to a client
- Clients are not classified adequately nor is there a distinction made between the "unemployed" and the more general "job seeker"
- Information generated by the PES system is not systematized, analysed, or disseminated and, as such, is not used to guide and, where necessary, change programme delivery
- Counselling and guidance are not tailored to the individual needs of the job seeker
- Services to employers are minimal, limited only to job vacancy registration and to the legal requirements for recruitment
- Active labour market programmes administered by the PES and funded by the Employment Fund are minimal, consisting of a Public Works program (which absorbs the lion's share of available funds, as well as training/retraining program).

A consequence of data inadequacies is that monitoring and evaluation of the PES' performance are nothing of their ongoing prospects in the labour market. The subsequent absorption into the labour market of those in training or retraining is not known. Nor is their information on the transition of the unemployed into employment, although it can be inferred that a distinct minority of the unemployed are actually receiving benefits. The Government, in its broad reform agenda is not unaware of challenges to address in its employment services, having identified these in a Presidential decree of 2017, which revised the MERL's mandate in the field of employment to include the following:

- The design, implementation and monitoring of regional and sectoral employment promotion plans.
- A focus on services to the unemployed, particularly young secondary and tertiary graduates and other disadvantaged groups.
- Promoting entrepreneurship among labour market entrants.
- Creating an effective vocational training and re-training system backed up by a dedicated allocation from the employment fund.
- Introducing measures to promote household-based entrepreneurial activities.

The Government has also taken action to improve mechanisms for the issuance of subsidies and grants through the Employment Fund of the Ministry of Employment and Labour Relations. In particular, costs of vocational training to the employer may be subsidized by the Fund, and unemployed seeking to become entrepreneurs can also receive subsidies for registering a business as well as for entrepreneurial training. Grants have been made available to vocational training institutions for the retraining of the unemployed as well as for returning migrants and women from low-income households. Grants for the training of managers and workers in a variety of agricultural sectors are also available.

## 5.5 Absent data and a changing labour market composition are underlying challenges

That paucity and apparently little use of information are binding constraints to answering the basic question of how well the PES is performing in its contribution to employment policy. For example, “employment targets” are set at the regional and district level levels in Uzbekistan, yet it is unclear whether subsequent data are kept on these data, and, if they are, whether they are analysed as a means of adjusting either the targets or the means of achieving them.

As another example, the profile of the PES client has changed in recent years toward a focus on secondary and special graduates and tertiary graduates. The government has created an incentive for the placement of these jobseekers by lessening gradually the nonwage labour costs associated to employers who would hire them. And yet the effect of this hiring incentive is either not known or not in the public domain, meaning that the cost of the incentive, or its employment consequences cannot be measured.

And, finally, the PES is responsible for the administration of a quota system for disadvantaged job seekers, e.g., the disabled, single mothers with children, and a number of other population groups. Apparently, there are no available data on how this quota system is functioning.

The underlying challenge facing the PES is that its structure and services were not designed to cater to a new labour market dominated by private-sector jobseekers who are informal, for whom entrepreneurial and self-employment skills would be most pertinent, who are predominantly rural, who are poorer, rather than richer, and whose needs consequently are quite different than those of a state-led employment model.

Below is a snapshot of users of the PES system for six months in 2018. It is safe to conclude from this snapshot that applicants are overwhelmingly rural and this, possibly for two reasons. First, the rural areas are where the jobs are less relevant and, second, and, again, possibly, it is in rural areas where networks are less dense, where alternative job-search means are less available.

The table’s data also suggest that the PES appears to serve only a minority of the unemployed, and that even a smaller minority of the unemployed are eligible for unemployment benefits.

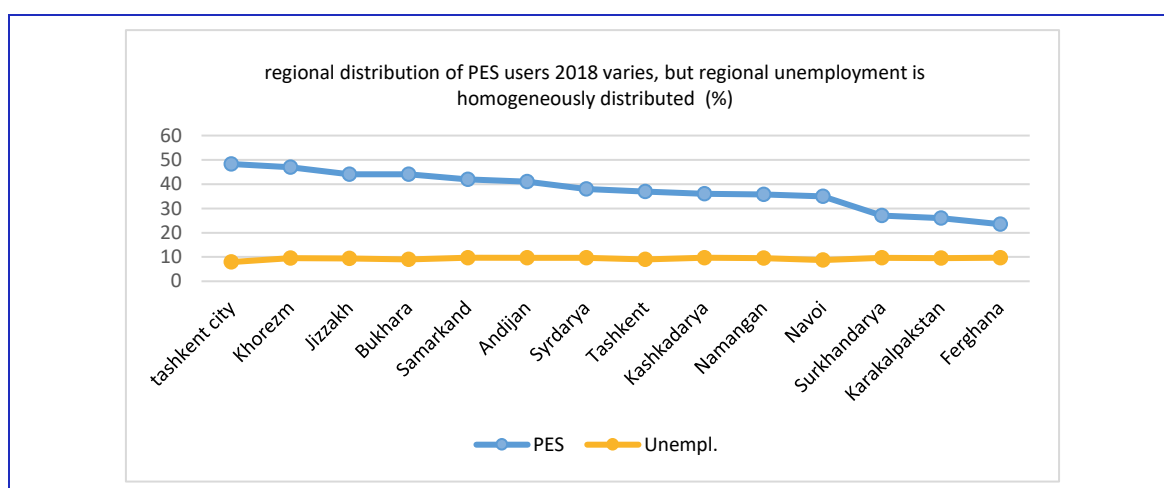
One general conclusion to draw is that the PES is serving only a minority of its potential market.

Table	
During this period, the SES received	Over 345.000 people applied for assistance
This figure represented	About 32.5 % of total unemployment
Applicants were	Fairly equally distribute between men and women
They were	81 % from rural areas
Prime age workers between 29 and 49	Constituted 56 % of all applicants
Young people, 15 to 29	Constituted 35.8 % of all applicants
The long-term unemployed of over one year	Constituted 1.7 % of applicants
Of the long-term unemployed	58 % were prime-age workers
The low-skilled once dominated applicants	Increasingly the service is catering to secondary, vocationally trained, and tertiary graduates
In this period,	Only 2 % of graduates – less than 6,000 – were eligible to receive unemployment benefits

Source: ILO (2019)

It will be noted from Table 5.2 that very few appear to receive unemployment benefits. Moreover, for the minority who do receive it, the benefit, the level is just above or equal to the poverty line. The low level and coverage of the benefit undermine its basic purpose, which is to provide an effective income replacement during periods of unemployment. Low benefits may be an incentive to take up work in the informal economy.

**Figure 5.1 Regional distribution of PES users.**



Source: Authors' calculation from stat.uz (2019) and ILO (2019)

Figure 5.1 shows regional variation of young (15-24) users of the PES system relative to regional unemployment rates. Of interest is the fact there appears no correlation between the two. Instead, unemployment in the country is (remarkably) homogeneously distributed across regions, while one might have expected that the higher the regional unemployment rate, the greater the usage of the PES. Of course, other factors might explain this, including the density of district PES offices by region, the industrial structure of regions, and the variance in regional geographic area. It would, for example, to draw conclusions from these numbers when comparing geographically vast Navoiy with more concentrated Jizzakh.



In assessing its own challenges, PES officials note that there is often a mismatch between jobseeker qualifications and for employer requirements for higher qualifications and some work experience. The mismatch “vicious circle” of job seekers wishing to acquire work experience and employers wishing to hire those who already have it is a challenge certainly not faced by the Uzbekistan PES alone: the problem is shared by many other countries’ systems as well. It is here where the expansion of job experience through apprenticeships, internships, or other modes of acquiring work experience could be useful in improving labour market functioning.

PES officials also note that the number of job vacancies reported to the PES are limited, despite an employer obligation to do so. Possibly, this is an indication of the limited extent to which employers rely on the PES for all of their hiring needs, which, too, is not unusual for employers who might have broader networks of potential hires.

PES officials contend in a front-line manner with the country’s informal workforce and feel that there are few measures available for their service to effect the transition between informality to formality for informal workers. Finally, while the dense institutional structure of Uzbekistan may still reflect its state-led model of growth, so, perhaps, do many Uzbeks: PES officials note the high expectations of jobseekers with respect to wages and working conditions – and a strong preference for public sector jobs.

The impressive educational attainment of young Uzbeks as measured by their enrolment rates says little of skills. The World Bank observes that: “Most of Uzbekistan’s labour force lacks higher education and a significant share of the working-age population is low-skilled or does not have the skills demanded by the market...Other structural weaknesses in Uzbekistan’s labour market include disincentives to work, skills gaps and a limited supply of technical skills training, high youth unemployment, high economic inactivity and long-term unemployment, and limited labour mobility.”<sup>44</sup> The unemployment rate between young men and women is similar, the young women’s rate being slightly higher. The adult employment rate is, however, dissimilar, with the women’s trailing the men’s rate by 20%. These women are not unemployed, they are inactive, rather than clients of the PES.

Questions of funding and its allocation are addressed in the ILO report. For example, the country’s major active labour market policy (ALMP) is the public works programme, which is separately funded by the Public Works Fund with a current budget of approximately \$90 million. The second major ALMP is the training and retraining program which is funded by the Employment Promotion Fund whose budget is approximately \$26 million for this, as well as for the functioning of the PES and management of the unemployment benefit program. The ILO study includes suggestion on funding to which the reader is referred.

In this section, however, we present summaries of the sets of two most urgent needs found in the ILO analysis. As to the first of these, ILO notes that:

“The areas in most need of attention are individualized counselling and guidance services; the systemization and analysis of available labour market information; the availability of an adequate system of active and passive labour market policies; and the review of funding mechanisms for labour market policies.” (p. vi) The rationale for each need is recalled from the foregoing pages.

The second major challenge is organization of the service. At present, there are too many isolated units responsible for portions of the delivery of PES services. Inevitably, this creates overlap, information gaps, and detracts from a more integrated approach toward fulfilling the function of an employment service. The ILO suggestion foresees the creation of a discrete branch called “Employment”, headed by one senior deputy minister and within the Ministry of Employment and Labour Relations.

The Employment branch itself would be divided among three entities, one of which entitled “Employment Promotion” having full responsibility for the employment service. The other two entities would deal with labour migration, and analysis, monitoring an evaluation, respectively.

The ILO report provides detailed recommendations on the reorganization of the PES to which the reader is referred.

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<sup>44</sup> World Bank (2018), *Growth and Job Creation in Uzbekistan: an in-depth diagnostic*, pp. iv-v.



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